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Economic Discipline

and

Global Punishment

Globalisation and Australian Economic Policy
during the
Hawke and Keating Years

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Thesis submitted for the degree of
Doctor of Philosophy
in the
Department of Politics
University of Adelaide
June 1999

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Abstract

This thesis argues that to gain a more complete understanding of the effects of globalisation on Australia it is necessary to integrate historical and empirical analyses of the world and Australian political economies and to consider globalisation as both 'material' effect and 'ideological' construction. Whilst providing an account of globalisation as an empirical and, hence, measurable phenomenon, the thesis supplements this with an account of the domestic politics of globalisation - the way globalisation, as a constructed policy imperative, has been used to persuade and coerce policy changes and downgrade societal expectations about the role of politics.

Defining 'economic globalisation' reveals the partiality and contradictions of key explanatory terms and the need to augment conventional definitions with a conception of globalisation as a persuasive construction. Measuring globalisation and its effects shows that whilst changes in the world political economy have been extensive and have comprehensively challenged the policy structures developed during the post-war 'long boom', the globalisation process is not inevitable or irreversible, nor has it diminished the importance of the state. Globalisation both shapes and is shaped by state policy development. Caught between international and domestic pressures, states have sought new strategies of governance. To differing extents, policy-makers have embraced economic liberal policies that have increasingly forced domestic political and economic adjustment.

After an analysis of Australia's historical protectionist policy response to economic vulnerability, the thesis provides a detailed examination of how the concept, experience and consequences of globalisation both pressured and were used by the Hawke and Keating Labor Governments to restructure the Australian political economy. The increasing shift to economic liberal policies was both an economic strategy to open Australia to the world economy and a political project that aimed to lower expectations about the role of the state and to establish an acceptance of the need for continuous adjustment to the world political economy. Through persuasion - the rhetoric of globalisation - and coercion - economic liberal policy change, the Government broke down Australia's historical protectionist policy framework and strengthened the ability of the world political economy and the market to regulate the allocation of resources, socio-economic outcomes and policy possibilities. By the time of Labor's defeat in 1996, economic liberalism had been established as a new policy orthodoxy, effectively disciplining government, economy and society.

The thesis argues that globalisation was more than a constraint on policy, it was also a dominant and 'persuasive' construction, effectively used by policy-makers and other

powerful social actors to support claims about the need for a new 'globalised', economic liberal policy structure in Australia. Globalisation, then, provided both constraints on and opportunities for the Labor Government in the process of negotiating international and domestic pressures. The thesis argues that the shift in state aims requires a reconceptualisation of ideas about policy autonomy and capacity. The Australian state, under Labor, increased its autonomy from domestic opponents of policy change and succeeded in its goal to enhance domestic adjustment to the world political economy.

Declaration

This work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institutions and, to the best of my knowledge and belief, contains no material previously published or written by any other person, except where due reference is made in the text.

I consent to this copy of my thesis, when deposited in the University Library, being available for loan and photocopying.

Acknowledgements

I would like to acknowledge the generous assistance given to me in the form of an Australian Post-Graduate Award Scholarship which provided much needed financial support. The Politics Department of the University of Adelaide provided an amenable academic home and I would especially like to thank the secretaries Chris Hill and Tina Esca. My supervisor Doug McEachern provided much needed academic direction and discussion. Also important for academic guidance were Greg O'Leary, Bob Catley and Richard DeAngelis. My thanks also go to Jean Crowther, Terry Tooth, and Sarah Tooth for their editorial assistance, Joan and Michael Conley for their continuing support and Tom Martin for his help in the final stages.

Most of all, I would like to thank Shelley Kulperger, without whom I may never have finished this thesis and who provided love, care, support, academic guidance and editorial panache, beyond what anyone could expect from a partner.

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Introduction

Globalisation as Explanation

> We can all now see that the inward-looking postwar development strategies were a mistake. One of the lessons of the past decade is that we can no longer carry the costs of mistakes of this kind. . . . If ever we were 'the lucky country', we cannot afford to remain the happy-go-lucky country that Donald Horne described two decades ago. We must work to create our own success.[1]

> Today, the long-term direction in which we have to travel is clear to all: we have to internationalise. The only real debate is about how we go about the process of reform and how fast we do it.[2]

> The world is changing - visibly, quickly, inexorably. . . Trade walls are falling over, capital markets are shaking themselves free of regulation, the story of work is being rewritten. The forces driving this transformation are bigger than all of us. If we adapt to the changes we will prosper - if we don't, we'll founder.[3]

From the late 1980s and into the 1990s, globalisation has been increasingly used as a shorthand term to express the impact of the wider world on the nation-state. Globalisation and other terms such as internationalisation, interdependence, integration - the so-called 'imperatives' of the world economy - have provided rhetorical devices for governments and commentators throughout the world to convey, in a simple and straightforward manner, the message that there are no alternatives to the increasing liberalisation of economic processes. In Australia, during the years of the Hawke and Keating Labor Governments, these global references were used to explain that gone were the days of Australia as a lucky country, prosperous despite itself.[4] In particular, conceptions of economic globalisation were used to support the argument that Australia's past 'protectionist' policy structure had to be dismantled because it was no longer an appropriate way to deal with the problems of economic vulnerability.[5] Economic globalisation, it was increasingly argued, reduced the effective policy choices available, making economic liberal adjustment the only viable policy strategy.[6]

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1 R. J. L. Hawke, "Stan Kelly Memorial Lecture" (5 September 1985) *Commonwealth Record*, 2-8 September, 1985, p. 1516.

2 R. J. L Hawke, "Speech by the Prime Minister: Launch of the Garnaut Report *Australia and the Northeast Asian Ascendancy*," Sydney, 22 November, 1989.

3 Keating, cited in Lenore Taylor, "Pre-election Interest Rate Cut Would Overheat Economy: Howard," *Australian*, 7-8 October, 1995, p. 2.

4 Donald Horne, *The Lucky Country: Australia in the Sixties*, Melbourne, Penguin, 1964.

5 The term economic vulnerability is borrowed from Francis Castles, *Australian Public Policy and Economic Vulnerability*, Sydney, Allen & Unwin, 1988.

6 For an influential Australian account see Paul Kelly, *The End of Certainty*, Second Edition, Sydney, Allen & Unwin, 1994. See also Bob Catley, *Globalising Australian Capitalism*, Melbourne, Cambridge University Press, 1996; Robert B. Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, New York, Vintage Books, 1992; Susan Strange, *The Retreat of the State:*

Such constructions of the effects of the world political economy provided the basis for claims that previous economic and political practices, lifestyles and expectations had to be adjusted to new global 'realities'. Globalisation, in this view, entailed the victory of economics over politics, the market over the state, the international over the domestic, and signalled the inevitable decline of the redistributive state and the mixed economy.

Conceptualising the Effects of Globalisation

> [T]here is a lot of economics in politics, and a lot of economics cannot be understood except in terms of politics.[7]

> However compelling external pressures may be, they are unlikely to be fully determining, save for the case of outright occupation. Some leeway of response to pressure is always possible, at least conceptually. The choice of response therefore requires explanation. Such an explanation necessarily entails an examination of politics; the struggle among competing responses. The interpenetrated quality of international relations and domestic politics seems as old as the existence of states.[8]

Given the impracticality and undesirability of autarky, all countries are profoundly affected by the world political economy. The policy actions of other states, international institutions and regimes, the microeconomic decisions of foreign economic actors, economic conditions in the rest of the world - all have substantial impact. In recent years, the shift by many states to economic liberal policies has intensified the process of economic globalisation, enhancing its effects and making policies of insulation more difficult to maintain. Continuous innovation in information, communications and transportation technologies have spurred and facilitated globalisation, decreasing the significance of time and space and increasing pressures on both political and economic actors to adjust. As more and more countries have liberalised their financial sectors and as investors and speculators have searched for new ways to make money from money, finance has increasingly globalised, providing comprehensive constraints on the policy-making process and structuring policy decisions and perceptions about the viability of alternative policy frameworks. As countries have tentatively liberalised their barrier protections and firms have sought new markets, world trade and production have grown considerably, intensifying competitive pressures on all countries. Efforts to develop economic liberal

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The Diffusion of Power in the World Economy, Cambridge, Cambridge University Press, 1996; Philip G. Cerny, "What Next for the State?" in Eleonore Kofman and Gillian Youngs (eds), *Globalization: Theory and Practice*, London, Pinter, 1996.

7 J. D. B. Miller, "The Interaction of Economics and Politics in Government Policies" in J. D. B. Miller (ed) *Australia's Economic Relations*, Sydney, Angus and Robertson, 1975, p. 1.

8 Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization*, 32(4), August, 1978, p. 911.

international governance structures have aimed both to instigate and buttress domestic moves towards economic liberalism.

Whilst in the past the effects of the world political economy on the nation state were often ignored or assumed to be important without adequate investigation, in recent years, in Australia and elsewhere, the analytical focus has shifted to an international (or, as many would argue, global) level of analysis. Many political scientists, economists and other commentators have come to see the 'global' as the determining factor in understanding policy change and the discipline of international political economy has become increasingly important in providing accounts of the pervasive effects and processes of economic globalisation. Unarguably, domestic political economies have been affected by developments in the world political economy, but Gourevitch's concern in the late 1970s that political scientists had neglected "reasoning from international system to domestic structure," has been more than adequately addressed in the 1990s.[9] The increased focus on economic globalisation, or a line of reasoning that runs from the international to the domestic, has often made it appear that the effects of the world political economy are overwhelming, outrightly determining policy choices and irrevocably weakening the state.[10] After a period of increasing concern about the constraints of globalisation, it is evident that the importance of continuing differences between countries, domestic political struggles and domestic constructions of policy 'imperatives' has been downplayed at the cost of a more complex analysis of the interaction between international and domestic level variables and between the constraints *and* opportunities that globalisation presents to political actors.

Globalisation is often treated as an independent factor to which states *respond*, but this neglects the pivotal impact that policy responses have on *shaping* globalisation and its effects in the first place. In the introduction to an edited volume entitled *Internationalization and Domestic Politics*, Keohane and Milner argue that the central proposition of the collection is that:

> we can no longer understand politics within countries - what we still conventionally call 'domestic' politics - without comprehending the nature of the linkages between national economies and the world economy, and changes in such linkages.[11]

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9 Ibid., p. 882. See also Gabriel A. Almond, "The International-National Connection," *British Journal of Political Science*, 19, 1989.

10 In addition to the references in footnote 6 above, see Peter Drucker, *The New Realities*, Oxford, Heinemann, 1989; Richard O'Brien, *Global Financial Integration: The End of Geography*, London, Pinter, 1992; Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies*, London, Harper Collins, 1995; Philip G. Cerny, "Paradoxes of the Competition State: The Dynamics of Political Globalization," *Government and Opposition*, 32(2) Spring, 1997.

11 Helen V. Milner and Robert O. Keohane, "Internationalization and Domestic Politics: An Introduction" in Robert O. Keohane and Helen V. Milner (eds), *Internationalization and Domestic Politics*, New York, Cambridge University Press, 1996, p. 3.

Whilst this is an important point, they then go further to reveal that globalisation, or internationalisation as they call it, is the "central explanatory variable" of the accounts of political and economic change contained in the volume.[12] Although Keohane and Milner acknowledge the mediating role of domestic political institutions, they see globalisation as an empirically measurable, exogenous variable which provides clear signals to domestic actors and to which domestic politics reacts. Policy preferences and decisions are considered to be dependent variables with societal and state actors either adjusting to or resisting globalisation.[13] Rather than integrating domestic and international explanations, globalisation is seen as an all-determining phenomenon distinct from domestic political decisions. In Australia, similar arguments about global determination are made by Bryan and Rafferty who see policy change as a response to the imperatives of global accumulation, and Catley who sees Labor's policy shift as a process of adaptation to the clearcut and "unavoidable challenge of globalisation."[14]

Despite the considerable impact of globalisation on the nation state, the role of external developments in explaining the widespread political, social and economic changes that have occurred since the 1970s should not be overemphasised or given analytical primacy. While care needs to be taken not to overstate the extent of policy freedom that political actors have, it is necessary to 'bring the domestic back in' to analyses of globalisation so as to maintain a balance between international and domestic level variables.[15] It is the changing relationship between the world and domestic political economies that has created both pressures and opportunities for policy shifts and changing strategies of governance.

States face often cross-cutting pressures from both domestic and world political economies and as Underhill argues:

> If we are to understand how states manage the constraints of the domestic and international domains, we must understand the politics of the state itself, situated as it is between domestic and international societies. . . . The state emerges as the political

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12 Ibid., p. 4.

13 Ibid., pp. 4-5; Jeffrey Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies: An Analytical Overview" and Geoffrey Garrett and Peter Lange, "Internationalisation, Institutions and Political Change" in Keohane and Milner *Internationalization and Domestic Politics*. Elsewhere Garrett argues that: "Following recent studies, internationalization can be considered an exogenous development to which domestic actors must respond rather than the result of conscious policy choice." Geoffrey Garrett, "Capital Mobility, Trade, and the Domestic Politics of Economic Policy," *International Organization*, 49(4), Autumn, 1995, p. 663.

14 Dick Bryan and Michael Rafferty, *The Global Economy in Australia: Global Integration and National Economic Policy*, Sydney, Allen & Unwin, 1999; Catley, *Globalising Australian Capitalism*.

15 This plays on the phrase used by a group of scholars who argued in the mid-1980s that it was necessary to 'bring the state back in' to political and sociological analyses. Peter Evans, Dietrich Rueschemeyer and Theda Skocpol (eds), *Bringing the State Back In*, Cambridge, Cambridge University Press, 1985.

> focus for the process of adjustment and change. In short, the politics of the state mediates between the economic and political domains, and between the domestic and international levels of analysis.[16]

Even though many developments in the world political economy occur beyond the control of small countries such as Australia, it is in the domestic arena that interpretations are constructed and policy choices are made, explained and justified. It is vital, therefore, to consider the nexus between the domestic and world political economies and the possibility that states (and in particular the governments that 'lead' them), pressured by both, may attempt to play-off one arena against the other, rebalancing internal and external pressures by exploring alternative avenues of autonomy and constructing new capacities. Hence the need to examine domestic political developments and struggles more closely. Politics matters. As Gourevitch stresses: "politics shapes the policies that shape the micro-institutions of capitalism. . . . [R]egulatory systems are sustained, or changed, by choices made in a political process by policymakers."[17] Even as the effects of the world political economy have intensified through the complex interaction of policy decisions, microeconomic actions and technological change, domestic politics and governance remain as pivotal as ever: the policy-making process is not determined by the world political economy.

Particular attributes of nation-states and policy structures mediate - enhancing or insulating - the impact of the outside world and provide different possibilities for adjustment. Countries are affected differently by globalisation and have widely variant abilities to shape world political economic structures.[18] These particularities, differences and divergences indicate that we need to integrate international and domestic levels of analysis to gain a more comprehensive understanding of the effects of economic globalisation. The effects of the world political economy on a country such as Australia, will be experienced within a context of particular Australian attributes and 'problems', and will be shaped by domestic political processes. At an international or global level of analysis, Australia is comparable to other countries

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16 Geoffrey R. D. Underhill, "Conceptualising the Changing Global Order" in Geoffrey R. D. Underhill and Richard Stubbs (eds), *Political Economy and the Changing Global Order*, London, Macmillan, 1994, pp. 32 & 34. See also Peter Evans, Dietrich Rueschemeyer and Theda Skocpol, "On the Road Toward a More Adequate Understanding of the State" in Evans, Rueschemeyer and Skocpol, *Bringing the State Back In*, p. 350.

17 Peter Gourevitch, "The Micropolitics of Microinstitutional Differences in the Analysis of Comparative Capitalism" in Suzanne Berger and Ronald Dore (eds), *National Diversity and Global Capitalism*, Ithaca and London, Cornell University Press, 1996, p. 241. See also Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises*, Ithaca, Cornell University Press, 1986.

18 W. Rand Smith, "International Economy and State Strategies: Recent Work in Comparative Political Economy," *Comparative Politics*, April, 1993, p. 352. See also Susan Strange, *States and Markets*, London, Pinter, 1988.

affected by changes in the world political economy, but at a domestic level of analysis, Australian particularities and proclivities have shaped the impact of globalisation.

Australia is qualitatively different because of factors as diverse as its 'beginnings' as a collection of English colonies reliant on the state for development; large island land mass, small population, and wealthy market; location in the Asian region; strong economic and military ties to Britain and the United States; comparative advantage in primary commodities; reliance on foreign sources of capital; and past protectionist patterns of public policy. World trade, finance and production structures and international agreements and regimes have long shaped the Australian political economy, but have not mandated particular policy choices and outcomes. Rather, domestic political struggles and historical policy responses to problems of economic vulnerability have shaped the impact of the world political economy and interpretations about what has constituted successful adaptation. For most of the twentieth century, policy-makers and economic elites in Australia believed that a protectionist policy structure was the most suitable response to the pressures of the outside world. Increasingly in the 1980s, however, both policy-makers and economic commentators argued that developments in the world political economy restricted policy possibilities to a greater extent than ever before. Past Australian policy choices were seen to be no longer applicable, indeed, they made the need for economic liberal policy change that much more urgent.

During the years of the Hawke and Keating Governments, in addition to the impact of the world political economy and Australia's structural economic problems, policy pressures and choices were shaped by a multitude of domestic political and economic factors. These included struggles over policy; the two party system and the less compromising economic liberal policy programme of the Liberal Opposition; the Labor Government's 'social democratic' political credentials; the need to maintain electoral support and calculations about the political sustainability of policy changes; perceptions about the adequacy of Australian economic structure and past patterns of policy; the structural need for economic growth and the power of particular business and financial interests; the interests and ideologies of policy-makers and the pervasiveness of economic liberal advice. All these factors influenced the policy process and the speed and extent of change. Pressures and support for the Labor Government's restructuring of the economy and the shift away from the protectionist policy structure towards economic liberalism came from a loose coalition of powerful domestic economic actors, wealthier sections of the population, the Liberal-National Opposition, an economic 'rationalist' bureaucracy and influential media commentators. Opposition from much of manufacturing industry, union and Party rank and file, a coalition of so-called 'old' Left and Right commentators and political activists, and a burgeoning

environmental movement, acted to ensure that the Government's policy direction was challenged, slowed and, at times, impeded. The economic liberal policy shift required strong government and sufficient societal support to overcome entrenched opposition.

Economic globalisation is often understood as an inevitable and irreversible process, but this analysis discounts the power of politics to shape, impede and reverse seemingly inexorable economic developments. Arguments about the economic liberal imperatives of globalisation have and will continue to come up against assertions that increased global pressures require insulation, compensation or, at least, interventionist strategy. Developments in the world political economy do not entail a straightforward reality that involves obvious and uncontested truths about what is actually happening and to whom, what should or can be done by political and economic actors, or where developments and reactions will lead.

Given that the exigencies of globalisation are interpreted, constructed and used by policy-makers and other political, economic and social actors, a fundamental but neglected aspect of the effect of globalisation is the way that it shapes perceptions of economic policy possibilities and is used to explain and justify difficult policy decisions. Globalisation is more than an empirically measurable, exogenous variable to which domestic politics must react, it is also an increasingly dominant construction - an ideology - that provides support for the restructuring of the balance between politics and economics. Whilst economic globalisation as 'material' effect constrains policy, globalisation as 'ideological' construction provides opportunities and support for fundamental policy change. Policy choices and structures mediate external effects, but they also constitute an integral component of the globalisation process itself through their contribution to patterns of economic interconnection and the moulding of perceptions about the possibilities of political action.

The view of economic liberal globalisation as a 'natural' process, divorced from human agency underplays the importance of political strategy - of calculation - and the way that state and societal choices continue to shape the effects of globalisation on the nation-state and on particular groups. In the final analysis, it is changing policy structures that determine the boundaries between the domestic and the international and between politics and economics. In a liberal democracy, authority and legitimacy are passed from an electorate to a government, which then must deal with 'governing' an economy and society. How the governing process is normalised is vital: the expectations that populations have of the state will affect the ease or difficulty of governing and the extent to which governments are held responsible for economic developments and outcomes. Governments and the wider state apparatus act to influence such conceptions by persuasion - the rhetoric they speak, and coercion - the

policies they make. Whilst governmental persuasion prepares and smooths the ground, it is policy that alters the terrain by coercing change.

Labor's Globalisation Project

> In the world in which we now live, change is not optional. Refusal to change has not been an option for Australia, for the Australian economy, for the Australian Government, or for the Australian Labor Party. It is not optional for Australia as it seeks its proper place in the region and the world, and as it transforms itself into an internationally competitive economy. It is not optional for the Australian Government, given its duty of leadership towards the achievement of these goals. And it is not optional for the Australian Labor Party in its determination to maintain its historic role as the powerhouse for change in this nation. It has always been the fact, but never more true than now, that there are only two choices: either we make change ourselves or have changes imposed on us by the rest of the world; either to achieve change ourselves, by ourselves, setting our own objectives and using our own methods, or have change thrust upon us.[19]

Over their thirteen years of office, the Hawke and Keating Labor Governments increasingly embraced an economic liberal globalisation project to cope with developments in the world political economy, the structural decline of the Australian economy and consequent political pressures. The turn towards economic liberal policies in Australia involved opening the economy more fully to the outside world by liberalising financial, investment and trade barriers; a gradual but on-going liberalisation of domestic economic processes, including labour market liberalisation, privatisation, competition and other microeconomic reforms; and a general downgrading of the role of the public sector.[20] As economic liberal policies were adopted, particularly in finance and trade, pressures for further economic liberal policy changes intensified. But, in making economic policy choices and developing an overall strategy of governance, the Government also needed to maintain electoral support and manage political opposition.

To persuade the population about the need for economic liberal restructuring, the Government increasingly utilised a 'rhetoric of globalisation' which involved three core messages: Australia's economic structure and the policies of the past were no longer

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19 R. J. L. Hawke, "'Change is Not Optional': John Curtin Memorial Lecture," Perth, 5 October, 1991, p. 3.

20 The term economic liberalism is used to imply a philosophy or policy programme that gives *a priori* preference to market processes and solutions over state intervention. As a corollary, economic liberals favour free trade and capital flows, a minimal state, continual reductions in state spending (especially welfare spending) and the privatisation of state enterprises and functions. Instead of a 'Keynesian' focus on demand, economic liberals focus on supply and microeconomic reform, arguing that wherever possible regulatory structures should be liberalised. Difficulties of description occur because the line between economic liberals and those who would reject the label is often not clear cut. Distinctions, therefore, are generally a matter of degree. By using the label economic liberal there is no attempt to imply a rigid definition or to ascribe a universality of viewpoint to those who would choose to call themselves such.

sustainable; if globalisation were embraced by liberalising the economy, Australians would benefit; failing this, there was no choice - globalisation would force adjustments on Australia.[21] The all-encompassing but nebulous notion of building 'international competitiveness' was used to justify fundamental changes to the Australian economy, society, and politics. In the context of electoral competition and the need for policy differentiation, the Government added an important caveat: it was the Labor Party, rather than the Liberal-National Coalition, that was best able to deal with the pressures of globalisation and manage the transition to an economic liberal policy structure whilst maintaining a 'social democratic' concern for equity.[22] The Accord (at least initially), industry plans, social policies and the more gradual embrace of economic liberalism helped to differentiate the Government's policy programme from the Opposition's. Nevertheless, although the Government asserted that the pace of change and the choice of accompanying policies could be varied, they also stressed that there was no real choice about the direction of policy towards economic liberalism.

The Labor Government's rhetoric of globalisation was a form of public education which attempted to justify and instil in the population an understanding of constant and often painful economic changes by establishing the inevitability and legitimacy of economic liberal adjustments to globalisation. The long-term decline and continuing variability of returns from primary commodity exports and an increasingly uncompetitive manufacturing sector were undermining the viability of Australia's historical protectionist policy structure, and the attempt to change public expectations aimed to ensure that the electorate was aware of 'global economic imperatives' when judging the performance of the Government and policy outcomes. Expectations about the possibilities of politics had to be lowered. Reshaping expectations was not a task performed solely by policy-makers. Attempts to persuade came from business and financial actors who stood to benefit from policy change, and from academics and commentators who were convinced of the intellectual validity of economic liberal prescriptions.

The Labor Government attempted to globalise both the Australian economy and Australian politics. Not only did the economy need to be restructured, but the role of the state as well - away from insulating, protecting and intervening, towards liberalising and enforcing continuous adjustment to the world political economy. The major

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21 The phrase 'rhetoric of globalisation' is used to encompass earlier conceptualisations and evocations of the 'imperatives' of the world political economy, such as internationalisation, interdependence, integration, or, simply, the world. Rhetoric is not being used here in the sense of "just mere rhetoric," counterposed to "genuine action or scientific fact." Michael Billig, "Conservatism and the Rhetoric of Rhetoric," *Economy and Society*, 18(2), May, 1989, p. 132. Rather it is used in the wider sense of language designed to persuade.

22 The term 'social liberal' is perhaps a better description of Labor's social policy direction.

mechanism of adjustment was the increasing resort to the market, with the world political economy constructed as the market writ large. It was the world 'market', the Government argued, to which Australians had to respond and adapt, but it was a world political economy to which Australians were increasingly exposed. Whilst the rhetoric of globalisation aimed to prepare and provide justification for policy change, it was the policy shift to economic liberalism that facilitated and reinforced the globalisation process and coerced changing societal outcomes and expectations. The policy shift reinforced the market as the pre-eminent regulator of social outcomes, redistributing advantage and disadvantage within Australia. Through both persuasion and coercion, the Government restructured the Australian political economy and marginalised alternative policy frameworks for dealing with economic vulnerability which ranged from the maintenance or rebuilding of the protectionist policy structure to the development of 'strategic' interventionism. Globalisation, then, provided both constraints on and opportunities for the development of a new policy structure - a new system of governance - that more effectively mediated between the pressures of the world and domestic political economies.

By the time of Labor's defeat in 1996, economic liberal globalisation had been established as a new policy orthodoxy, effectively disciplining government, economy and society. However, because it cannot be guaranteed against modification or even reversal, the continuation of economic liberal globalisation is not inevitable and must remain, therefore, an ongoing political project. Despite the intensification of economic globalisation and considerable persuasive and coercive efforts, domestic politics, both in Australia and other countries, retains its potential to challenge the economic liberal policy response and impede processes of globalisation. Into the future, the policy process will continue to be shaped by the interaction between the world and domestic political economies and ongoing political calculations by policy-makers about how best to balance pressures and utilise opportunities.

Chapter Outline

The first section of the thesis analyses economic globalisation and its effects through a comprehensive review of literature from international, comparative and Australian political economy, as well as work more explicitly focused on economics and politics. Chapter one outlines the multiplicity of ways to conceptualise globalisation and considers the partiality and contradictions of key explanatory terms. Chapter two measures the long-term development and effects of the major components of economic globalisation - trade, production and finance - in relation to Australia and the world as a whole. Chapter three analyses the changing relationship between external and internal

constraints on the state, the effects of globalisation on the governing process and conceptions of policy autonomy and capacity. Overall, the analysis of the first section of the thesis provides the context for the more detailed analysis of the domestic politics of globalisation in Australia - the comprehensive economic policy changes enacted during the 1980s and 1990s.

The second section of the thesis begins by placing recent Australian economic policy developments in historical perspective. Chapter four outlines the theme of economic vulnerability and the development of a protectionist policy structure over the course of the twentieth century and closes with an outline of the dire economic situation facing the Hawke Government in 1983. Chapter five provides, firstly, an outline of the Hawke and Keating Governments' uneven but eventually comprehensive adoption of economic liberalism and, secondly, an analysis of the reasons behind the policy shift. Chapter six considers the domestic politics of globalisation through a detailed account of the rapid liberalisation of the financial sector, the pivotal economic crisis of 1985-86 and the continuing problem of the current account deficit, the progressive lowering of protection and the associated embrace of free trade, and the gradual adaptation of the Accord to fit Labor's globalisation project. Chapter seven assesses the significance of the globalisation project in terms of the politics of persuasion and coercion. The thesis concludes with a speculative assessment about the future of economic liberal globalisation.

Chapter One

Defining and Understanding Globalisation

Introduction

> It is one thing to be sceptical about the concept of globalization, it is another to explain the widespread development and reception of the term since the 1970s.[1]

If every era has a defining concept then ours is surely globalisation. Globalisation has increasingly been seen to capture the spirit of the age - a new stage in the history of humankind involving an epochal shift from the national to the global. The concept of globalisation has dominated accounts of politics and economics in the 1990s. Although there are important differences of emphasis, most studies on the international political economy, comparative political economy or single countries, argue that globalisation has substantially increased external pressures on states and policy-making processes. Some analysts, especially in Australia, have argued that globalisation has straightforward and inevitable implications for policy.[2] Such constructions of global imperatives have been particularly prevalent among economic elites and policy-makers and have been increasingly used to provide a spur and justification for economic liberal policy changes and the gradual retrenchment of the redistributive functions of the state. Developments in the world political economy have necessitated, it has been argued, the reshaping of societal expectations about the role of the state and the need for continuous political, economic and cultural adjustment.

Globalisation is increasingly used to frame contemporary developments, but it is more often used as an explanation, rather than as something that needs to be explained. When it is explained, definitions are broad, ranging from claims about the development of a global consciousness to more limited definitions of increased capital mobility across borders. Roland Robertson, for example, argues that: "Globalization as a concept refers both to the compression of the world and the intensification of

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1 Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance*, Cambridge, Polity Press, 1996, p. 3.

2 See for example Bob Catley, *Globalising Australian Capitalism*, Melbourne, Cambridge University Press, 1996. For a determinist account of public policy in Australia and the 'imperatives' of globalisation during the 1980s, see Paul Kelly, *The End of Certainty*, Second Edition, Sydney, Allen & Unwin, 1992. From a different perspective, but equally scornful of 'social democratic' or 'national' policy responses to globalisation, see Dick Bryan and Michael Rafferty, *The Global Economy in Australia: Global Integration and National Economic Policy*, Sydney, Allen & Unwin, 1999. For a sceptical account see Francis Castles, "On the Credulity of Capital: Or Why Globalisation Does Not Prevent Variation in Domestic Policy-Making," *Australian Quarterly*, 68(2), 1996.

consciousness of the world as a whole," whilst Samuel Brittan asserts that: "Globalisation refers to a world in which, after allowing for exchange rate and default risk, there is a single rate of interest."[3] Generally, however, globalisation is defined by terms that themselves need explaining. Common descriptions such as integration, interdependence, global awareness, liberalisation and convergence identify aspects of globalisation, but individually fail to capture the contradictions and differential effects of a multifarious and uncertain process. Further, the account of globalisation needs to be supplemented by a consideration of the important, but generally neglected dimension of globalisation as a tool of political persuasion. Globalisation constitutes more than a material effect, it is also an ideological construction used to define new limitations on political possibilities - a political construction that has been used, paradoxically, to weaken the role of politics and the idea of political choice. This chapter aims to challenge the idea that globalisation is a clearcut, inevitable and irreversible process that leads inextricably to particular policy choices, a diminished role for the state and declining political efficacy. It begins by considering the usefulness and shortcomings of key explanatory terms for globalisation - integration, interdependence, global awareness, liberalisation and convergence - and concludes by analysing globalisation as a persuasive construction.

Globalisation as Integration

A focus on the increased openness of national economies and the tendency towards the development of global markets often leads to the term 'integration' being used to conceptualise globalisation. Integration implies the joining or bringing together of what was once separate. According to Keohane and Milner, the increase in cross-border economic transactions "can be expected to increase integration between domestic and international markets, where integration is defined in terms of the convergence of prices of goods, services, and capital in those markets."[4] The notion is that growth in financial, investment and trade flows, at a rate greater than that of world production, is leading to an integrated world economy where national borders are increasingly meaningless.

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3 Roland Robertson, *Globalization*, London, Sage, 1992, p. 8; Samuel Brittan, cited in Philip G. Cerny, "Globalization and Other Stories: The Search for a New Paradigm in International Relations," *International Journal*, 51, Autumn, 1996, p. 617.

4 Helen V. Milner and Robert O. Keohane, "Internationalization and Domestic Politics: An Introduction" in Robert O. Keohane and Helen V. Milner (eds), *Internationalization and Domestic Politics*, New York, Cambridge University Press, 1996, p. 10.

UNCTAD argues that there are two types of integration. Shallow integration encompasses "the spread of market linkages through greater trade and factor flows," whereas, deep integration involves international production which "goes beyond arm's length market exchanges by internalising cross-border exchanges related to productive assets located in different countries under the common governance of TNCs."[5] Thompson asserts that if a pre-globalising economy, which he calls a "world-wide economy," is characterised by a "*widening* of the range of countries and other agents involved in international economic relations, then the globalising economy could be characterised by a *deepening* of these interactions."[6] In this formulation, it is the movement towards a global structure of production that indicates the intensity of current integration. Just as significant, at least in regards to the making of economic policy, is the comprehensive integration of international financial markets, especially foreign exchange markets.

Some writers argue that growing integration has made the distinction between the internal and external irrelevant. Rosow, for example, argues that: "The 'world economy' is as much 'inside' the 'national' economy as 'outside', if this distinction continues to make much sense at all."[7] But, as will be analysed in the following chapter, despite the increasing integration of national economies, the distinction between national markets remains important and the integration process, currency markets notwithstanding, is a long way from the development of a seamless global market. Apart from the European Union, national markets are still significantly segregated, whether by territorial borders, boundary protections, transportation limitations or cultural preferences and particularities. Even in the EU, cultural and language barriers remain important. The continuing separation of human populations into distinct territorial entities, the fear of mass population movements and efforts by states to control and direct trade will ensure that the global market will continue to be segregated for some time yet. Most economic activity continues to take place wholly within the boundaries of nation states and most of that which does not is still effectively designated as 'foreign'.[8]

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5 UNCTAD, *World Investment Report 1994: Transnational Corporations, Employment and the Workplace*, New York, United Nations, 1994, p. 118.

6 Grahame Thompson, "Economic Autonomy and the Advanced Industrial State" in Anthony G. McGrew, Paul G. Lewis et al. (eds), *Global Politics: Globalization and the Nation-State*, Cambridge, Polity Press, 1992, p. 199.

7 Stephen J. Rosow, "On the Political Theory of Political Economy: Conceptual Ambiguity and the Global Economy," *Review of International Political Economy*, 1(3), Autumn, 1994, p. 473.

8 Robert Wade, "Globalization and Its Limits: Reports of the Death of the National Economy are Greatly Exaggerated" in Suzanne Berger and Ronald Dore (eds), *National Diversity and Global Capitalism*, Ithaca and London, Cornell University Press, 1996, p. 61.

States continue to have considerably more influence over national economic actors than those from elsewhere and are still able, despite constraints caused by financial liberalisation, to utilise macroeconomic policy to influence economic conditions.[9] State institutions and regulatory structures still matter and continue to shape the impact of global economic processes on domestic economic actors and populations. Even though international governance structures have attempted to bolster integration by moderating the autonomy of the state (to varying degrees), the continuing division of the world into separate territories and formally sovereign states, the strength of conceptions of national identity, culture and democratic legitimacy ensure that the distinction between the internal and the external remains significant.

Integration represents a benign view of globalisation that, in many circumstances, may not be warranted. The increase in foreign trade and investment and the general increase in competitive pressures leads to the destruction of industries and the dislocation of large numbers of people through unemployment. The foreign economic penetration of countries, whilst in many cases bringing investment and technological advances, also brings changes to traditional ways of life and the breakdown of local communities. Technological substitution and a wider choice for countries in sourcing imports have made the position of regions and countries that are reliant on one or a few major commodities, precarious. The increased scope and integration of world financial markets, whilst providing access to capital for development, can also provide access to short-term and highly mobile investment, unsustainable debt, insolvency and political instability and disintegration. The recent financial crises in Asia indicate the perils and often skewed outcomes of some forms of integration.

Not all countries, nor all regions within countries, are similarly integrated into the world political economy - some areas are hardly involved at all and others are dis-integrating. In the attempt to hasten the pace of integration, economic liberal policies have forced adjustment on particular regions, industries and workers. It is essential to remember that a nation-state is not an "homogeneous block of common interests" and when considering the effects of integration, it is vital to consider who is integrated and who is not.[10] Whilst integration captures an important aspect of globalisation, differential effects and discrepancies in the extent of the integration mean that globalisation is not synonymous with integration.

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9 Robert Eisner, "Keynes is not Dead, Just Drugged and Dormant," *Journal of Post Keynesian Economics*, 17(2), Winter, 1994-95; *The Misunderstood Economy*, Boston, Harvard Business School Press, 1994. See also the discussion in the following chapter.

10 Grazia Ietto-Gillies, *International Production: Trends, Theories, Effects*, Cambridge, Polity Press, 1992, p. 159.

Globalisation as Interdependence

The integration of national economies is often said to increase interdependence between countries. Jones argues that the term 'globalisation' has in many ways simply replaced the term 'interdependence' in descriptions of the international political economy: "some of the more far-reaching interpretations of interdependence have evolved, almost unaltered, into contemporary notions of globalisation."[11] The term 'interdependence' was popularised, at least in the discipline of politics, by Keohane and Nye.[12] In its simplest form, they argued, interdependence implies mutual dependence:

> Interdependence in world politics refers to situations characterised by reciprocal effects among countries or among actors in different countries. These effects often result from international transactions - flows of money, goods, people, and messages across international boundaries. Such transactions have increased dramatically since World War II . . . . Yet this interconnectedness is not the same as interdependence. The effects of transactions on interdependence will depend on the constraints, or costs, associated with them. . . . Where there are reciprocal (although not necessarily symmetrical) costly effects of transactions, there is interdependence. Where actions do not have significant costly effects, there is simply interconnectedness. This distinction is vital if we are to understand the *politics* of interdependence.[13]

Finance, production and trade linkages between national economies mean that policies and economic conditions in one country increasingly affect conditions and policy responses in other countries and vice versa.[14] With increased interconnections, financial crises are transmitted around the globe, recessions have impacts on trading partners, macroeconomic and industry policies have consequences beyond national boundaries, environmental degradation cannot be contained within borders and so on. Relationships between countries also have collateral effects on both other countries and on the structures of the world political economy. This includes important bilateral relationships, such as between the US and Japan, major groupings such as the G7 and the EU, as well as other trade blocs and security pacts.

Interdependence, Keohane and Nye contended, had two aspects, sensitivity and vulnerability: "sensitivity involves degrees of responsiveness within a policy framework - how quickly do changes in one country bring costly changes in another, and how great are the costly effects . . . . vulnerability can be defined as an actor's liability to suffer costs imposed by external events even after polices have been

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11 R. J. Barry Jones, *Globalisation and Interdependence in the International Political Economy: Rhetoric and Reality*, London, Pinter Publishers, 1995, p. 3.

12 Work by the economist Richard Cooper was also important in bringing the word into the political economy lexicon. Richard N. Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community*, New York, Columbia University Press, 1980 [1968].

13 Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition*, Boston, Little, Brown and Company, 1977, pp. 8-9.

14 Michael Stewart, *The Age of Interdependence*, Cambridge, MIT Press, 1984, pp. 28-29.

altered."[15] In their work Keohane and Nye criticised the inability of realist conceptions of international politics to understand the increasing challenge to nation states by non-state actors, particularly transnational corporations and financial markets. Increased interdependence was seen to involve a decline in state autonomy, although the costs of this did not necessarily exceed the benefits.[16]

The major problem with the term 'interdependence' is the notion that there is a mutuality of dependence among countries. In response, Keohane and Nye acknowledged that interdependence was "asymmetrical":

> We must also be careful not to define interdependence entirely in terms of situations of *evenly balanced* mutual dependence. It is *asymmetries* in dependence that are most likely to provide sources of influence for actors in their dealings with one another.[17]

Factors such as military power, economic wealth and diversity, political stability, highly educated populations and advanced infrastructure, all increase the options for developed states in their reactions to interdependence. Nation-states have varying levels of dependence and influence, both on other nation-states and on economic actors. To have analytical purchase, therefore, interdependence needs to be considered in terms of relativities of dependence, not only between states, but between states and corporations and between different corporations.[18]

The negative consequences of interdependence may, if not managed, cause problems for the pace and sustainability of processes of economic integration. Interdependence may lead, according to Thompson, to a "breakdown in both domestic and international mechanisms of control, with no guarantee of the development of new instruments to maintain political or economic order."[19] Simply because there is an increased need for global governance does not mean that states will "exercise prudence" in their international dealings.[20] Gilpin argues that the effects of interdependence will always be asymmetrical which, while making cooperation increasingly necessary, also makes it increasingly difficult to achieve.[21] Problems in developing international governance structures arise because of the mismatch between economic developments and political structures which remain embedded at the level of the nation-state.[22] In an

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15 Keohane and Nye. *Power and Interdependence*, pp. 12-13.
16 Ibid., pp. 9-10.
17 Ibid., pp. 10-11.
18 See Susan Strange, "States, Firms and Diplomacy," *International Affairs*, 68(1), 1991.
19 Grahame Thompson, "Economic Autonomy and the Advanced Industrial State," p. 200.
20 John Dunn, "Political Science, Political Theory and Policy-Making in an Interdependent World," *Government and Opposition*, 28(2), Spring, 1993, p. 251.
21 Robert Gilpin, *The Political Economy of International Relations*, Princeton, Princeton University Press, 1987, p. 34.
22 Stephen Gill, "Economic Globalization and the Internationalization of Authority: Limits and Contradictions," *Geoforum*, 23(3), 1992, p. 276.

interdependent world, internal political decisions often have substantial external effects and the fact that policy decisions may damage other countries, does not mean that such decisions will not be made.[23] This will probably remain the case despite the fact that there is a growing awareness of the global consequences of local events and decisions.

Globalisation as Global Awareness

Robertson proposes a two-part definition of globalisation: "Globalization as a concept refers both to the compression of the world and the intensification of consciousness of the world as a whole."[24] Marked and continual improvements in transport, communications and information technologies have contributed greatly to increases in global awareness. Giddens defines globalisation as "action at a distance" and he relates its intensification to "the emergence of means of instantaneous global communication and mass transportation."[25] It is now much easier, quicker and cheaper to get to and communicate with places that were once inaccessible. As the possibilities of remoteness or avoidance of global effects diminish, perceptive boundaries are unavoidably widened. Strange argues that "the most important factor in all aspects of globalization is perceptive. Those affected perceive themselves to be living and working in a world-wide context, instead of in a local, national one."[26] This may be greatest at an elite level, but such people play pivotal roles in the direction of national political economies, making decisions that influence the lives of many others. Whilst global awareness has increased throughout the world as transportation and information and communications technologies have grown in sophistication, access to these technologies and the ability to generate advantages from global knowledge are highly skewed towards the developed world. Even within the developed world, access to the technologies of globalisation are unequal.

Increases in global cultural flows have, according to Spybey, led to a world dominated by Western ideals and cultures: "through such influence, virtually the whole world has acquired aspirations to standards of living and lifestyles that have roots in Western culture."[27] These aspirations and the growth of global consumerism are an important

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23 Undoubtedly, the domestic polices of larger wealthy countries have greater external effects than those of small countries and larger countries can also insulate themselves more effectively. The US, in particular, is also able to pressure other countries to adjust internal policies in the 'interests of the world economy'.

24 Robertson, *Globalization*, p. 8.

25 Anthony Giddens, *Beyond Left and Right: The Future of Radical Politics*, Cambridge, Polity Press, 1994, p. 4.

26 Susan Strange, "The Limits of Politics," *Government and Opposition*, 1995, p. 293.

27 Tony Spybey, *Globalization and World Society*, Cambridge, Polity Press, 1996, p. xi.

aspect of contemporary globalisation and in this sense cultural globalisation reinforces the development of global markets. Economic aspirations have led previously non-capitalist countries to seek foreign sources of income through trade and investment, leading to further cultural interaction and global awareness. This does not mean, however, that a process of homogenisation is occurring: in the main, particular cultures have been and will continue to be influenced rather than replaced. Furthermore, cultural interaction is not a one-way process: western cultures have also been changed by increased interaction with other cultures. Such phenomena are, of course, not recent developments. The era of European colonialism increased the level of global awareness among both Europeans and those that were colonised.

Increased global awareness does not necessarily contribute to an increase in global understanding or unity.[28] As McGrew argues: "globalisation stimulates forces of opposition which may just as readily lead to an increasingly fragmented world, since greater mutual awareness and interconnections between different societies may simply sow the seeds of conflict and tension."[29] Knowledge about different cultures and others' standards of living may provoke hatred and envy, just as easily as they inspire acceptance and emulation. Global communications - especially the internet - provide possibilities for the dissemination of hate as well as friendship. Immigration undoubtedly aids knowledge and experience of other cultures, but its consequences are also ambiguous. Whilst multiculturalism is celebrated by those who see it as stimulating and enriching cultural interaction, it is condemned by others who see it as cultural dilution and miscegenation. Throughout the world, significant reactions against immigration and multiculturalism are on the rise. High unemployment and social deprivation have led to 'scapegoating' and violence in the developed and developing world alike. Whilst tourism and business travel have increased markedly, the permanent movement of people is one aspect of globalisation that is still rigidly regulated by national and international law.

Although highly skilled labour and business people have an increased ability to move, this is not the case for the low-skilled and the poor. These differences, Hirst and Thompson argue, have important consequences for the world's poor:

> At least in the period of mass migration there was the option to uproot the whole family and move in the quest for better conditions, something that now seems to be rapidly closing off for present-day equivalent sections of the world's population. They have little option but to remain in poverty and stick it out. The equivalent of the 'empty lands' available to European and other settlers in the USA and Canada, South America,

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28 Robertson uses the term 'unicity' in an attempt to distinguish the development of globalisation from conceptions of global unity. Robertson, *Globalization*.

29 Anthony G. McGrew, "Conceptualizing Global Politics" in Anthony G. McGrew, Paul G. Lewis et al. (eds), *Global Politics: Globalization and the Nation-State*, Cambridge, Polity Press, 1992, p. 23.

> Southern Africa, and Australia and New Zealand just do not exist today, with a concomitant loss of 'freedom' for the world's poor.[30]

Capital may be increasingly free to move but permanent labour movements are more restricted than ever before. In general, immigration restrictions are increasing and, as a percentage of world population, immigration has not reached in recent times the levels of the period after 1815 which was the "greatest era for recorded voluntary mass migration."[31] After World War I, migration slowed substantially, increasing once again after WW II. Strict immigration controls indicate two important contradictory aspects of globalisation: firstly, the ability of states to restrict processes of globalisation when they perceive them to be against their interests and secondly, (and contrarily), the ability of actors, in this case illegal immigrants, to subvert the will of states. Global awareness of the wealth of some areas of the world is a major force of attraction. At the same time, awareness of the poverty of other regions is a major force for restriction. Restrictions on the movement of people is an important counter-trend to the general thrust of economic globalisation and one of its most important descriptors - liberalisation.

Globalisation as Liberalisation

As barriers between countries are broken down by the liberalising decisions of states, economic actors can more easily penetrate other markets. Reductions in trade, investment and financial barriers and the reinforcement of these moves by the development of international governance structures add immeasurably to the technological and economic forces behind the globalisation process. The question remains, however, whether the liberalising decisions are instrumental in creating the global economic forces in the first place or whether they are inevitable and irreversible responses to global economic and technological change. In economic liberal conceptions of globalisation, technological advances and innovative economic actors are seen to be not bound by 'artificial' state regulatory boundaries, making restrictive regulations ineffectual, regardless of the tenacity of policy-makers.[32] Indeed, decisions to liberalise are seen as a necessary response to global 'realities', leading unavoidably to increased integration as policy-makers realise the rationality of developing larger

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30 Hirst and Thompson, *Globalization in Question*, p. 31.

31 Ibid., pp. 22-26.

32 This is seen to be particularly the case in relation to financial globalisation. See for example Ralph Bryant, *International Financial Intermediation*, Washington, Brookings Institution, 1987; Clive Crook, "Fear of Finance: A Survey of the World Economy," *Economist*, 19 September, 1992. See also Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies*, London, Harper Collins, 1995.

markets and removing the 'dead hand' of the state. In the event that policy-makers do not realise this rational path, state actions to resist will be counterproductive to economic advancement. Such conceptions of globalisation rest on a notion of an economic ascendancy over, and autonomy from, political forces. As Walter Writson, former CEO of Citibank, celebrates:

> The Gold Standard [of the nineteenth century], replaced by the gold exchange standard, which was replaced by the Bretton Woods arrangements, has now been replaced by the information standard. Unlike the other standards, the information standard is in place, operating, will never go away and has substantially changed the world. What it means, very simply, is that bad monetary and fiscal policies anywhere in the world are reflected within minutes on the Reuters screens in the trading rooms of the world. Money only goes where it's wanted, and only stays where it's well treated, and once you tie the world together with telecommunications and information, the ball game is over. It's a new world, and the fact is the information standard is more draconian than any gold standard. For the first time in history, the politicians of the world can't stop it. It's beyond the political control of the world, and that's the good news.[33]

According to Cerny, it is the "structure of competition" in financial markets that drives innovation, giving financial markets a complexity "which states and limited intergovernmental regimes cannot match."[34]

An alternative viewpoint is that globalisation is primarily the result of political decisions and non-decisions.[35] Rather than being forced to liberalise, states are seen to have promoted globalisation or, at least, allowed its development to go unhindered. Helleiner, for example, whilst not refuting the importance of market and technological developments, believes that "today's globalised financial order should be seen as being actively 'made' by political choices and state decisions."[36] Panitch concurs, arguing that globalisation is "authored by states and is primarily about reorganising, rather than bypassing, states."[37] The work of Karl Polanyi is often cited to support arguments about the political construction of free markets.[38] Polanyi argued that:

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33 Cited in Louis W. Pauly, "Capital Mobility, State Autonomy and Political Legitimacy," *Journal of International Affairs*, 48(2), Winter, 1995, p. 380.

34 Philip G. Cerny, "Patterns of Financial Globalization: Financial Market Structures and the Problem of Governance," Paper Presented to the Panel on Contemporary Trends in Financial Globalization, Annual Convention of the International Studies Association, Washington D.C., 28 March-1 April 1994, pp. 8-9.

35 Geoffrey R. D. Underhill, "Markets Beyond Politics? The State and the Internationalisation of Financial Markets," *European Journal of Political Research*, 19(2), 1991; Susan Strange, *Casino Capitalism*, Oxford, Basil Blackwell, 1986.

36 Eric Helleiner, "Great Transformations: A Polanyian Perspective on the Contemporary Global Financial Order," *Studies in Political Economy*, 48, Autumn 1995, p. 150. See also Manfred Bienefeld, "Capitalism and the Nation State in the Dog Days of the Twentieth Century" in Ralph Miliband and Leo Panitch (eds), *The Socialist Register - 1994*, London, Merlin Press, 1994.

37 Leo Panitch, "Globalisation and the State" in Ralph Miliband and Leo Panitch (eds), *The Socialist Register - 1994*, London, Merlin Press, 1994, p. 63.

38 See Helleiner, "Great Transformations" and "When Finance Was the Servant: International Capital Movements in the Bretton Woods Order" in Philip G. Cerny (ed), *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era*, Aldershot, Edward Elgar, 1993; Underhill, "Markets Beyond Politics?"; Tom Conley, "The Politics of International Finance," *Flinders Journal of History and Politics*, 18, 1996.

> There was nothing natural about *laissez-faire*; free markets could never come into being merely by allowing things to take their course. Just as cotton manufactures - the leading free trade industry - were created by the help of protected tariffs, export bounties, and indirect wage subsidies, *laissez-faire* itself was enforced by the state. . . . To the typical utilitarian, economic liberalism was a social project which should be put into effect for the greatest happiness of the greatest number; *laissez-faire* was not a method to achieve a thing, it was a thing to be achieved. . . . *Laissez faire* was planned, planning was not.[39]

Assessments of the costs and benefits of liberalising, maintaining or reinforcing restrictive regulatory structures involve political decisions and the recent comprehensive shift towards liberalisation can be seen as part of a wider faith in the efficacy of market forces to solve the economic and political woes of the 1970s and 1980s.[40] Political choices to liberalise boundary controls have been made within a context of assessments about, firstly, the power of economic actors to either bypass restrictive regulations or relocate, secondly, the contribution that liberalisation makes towards increased economic growth and, finally, the ability of policy-makers to shift economic adjustment onto populations and domestic economic actors. Undoubtedly, policy-makers have been motivated by different values, have faced differing domestic political constraints and have made varying assessments of pressures and opportunities.

The importance of politics in creating the conditions that have enabled market developments to occur is obvious, but it is also apparent that these market developments are, in turn, coercing political responses, with technological developments both being spurred by, and providing the means for, continuing globalisation. Contrary to the desire for parsimonious explanation, globalisation is best seen as resulting from the complex interaction of state decision-making (individually and collectively), the microeconomic decisions of economic actors and technological change and innovation. Politics, however, through the actions of states, still retains the ability to set the framework within which economic and technological developments take place and effect outcomes.

Given the uneven process of liberalisation and varying levels of state intervention in different countries, exposure to the world political economy encompasses not only the effects of external market actors, but the actions of other states in setting regulatory structures, supporting economic actors through subsidies, imposing sanctions and so on. The export focus of many countries is often not matched by a corresponding receptivity to imports and an economy may be outwardly-focused without being liberal in terms of domestic economic structure. Ostensibly open economies may be heavily regulated by interventionist industry policies. Rather than disappearing, the focus of state

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39 Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Boston, Beacon Press, 1957[1944], pp. 139-141.

40 This argument is dealt with in more detail in chapter three.

intervention has shifted in many countries to export enhancement and attempts to attract foreign investment. In addition, most countries continue to protect politically sensitive areas of their economies. Disputing the simplicity of the idea that we are moving inexorably towards a more liberal world economy, Gill argues that "a more outward-looking, competitive mercantilism has come to characterise the foreign and economic policies of most governments."[41] The phrase 'world political economy' is a more accurate description because it emphasises the political underpinnings of 'economic' processes.[42] Countries are not simply affected by economic forces divorced from political interests and structures. As Hirst and Thompson point out: "the term 'international economy' has always been a shorthand for what is actually the product of the complex interaction of economic relations and politics, shaped and reshaped by the struggles of the Great Powers."[43]

The equation of globalisation with liberalisation or economic liberalism often entails an assumption that world political economy pressures and the removal of regulatory boundaries mean that a complete package of economic liberalism must be bought. The mistake made by some economic liberals is to believe in a progression towards an economic liberal utopia with the market always the most appropriate regulatory mechanism. Increases in the levels of foreign investment and trade do not necessarily mean that a completely liberalised national investment and trade regime will be the most suitable policy response to increase growth, let alone achieve the aims of populations still bound by national borders. The removal of trade barriers and the liberalisation of finance do not dictate that government spending and social welfare must be cut or that the public sector and industry policies should be wound back. In sum, governments wanting to increase growth still have a variety of policy strategies at their disposal. It is not at all clear that economic liberalism is always the most suitable policy strategy for economic development and the wide dispersion of the benefits of growth. Economic liberalism can also lead to economic instability, underdevelopment and social polarisation.

The extent to which continuing economic liberalisation will lead to domestic counter-reactions and 'de-liberalisation', will determine the form, pace and sustainability of the globalisation process. The retreat into economic autarky and 'beggar-thy-neighbour' policies in the 1930s provides a pertinent example of the dangers of assuming that the

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41 Stephen Gill, "Global Finance, Monetary Policy and Cooperation Among the Group of Seven, 1944-92" in Philip G. Cerny (ed), *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era*, Aldershot, Edward Elgar, 1993, p. 98.

42 Other terms such as global structure and world order are often used to indicate the same broad concept.

43 Hirst and Thompson, *Globalization in Question*, p. 14.

globalisation process cannot be halted or even reversed.[44] Norman Angell, writing in 1911, argued that the "forces of modernity" - economic actors rather than states - were increasing economic interdependence to the point where war between the major powers was "an impossibility."[45] Today's economic liberal optimists should be aware of Angell's folly. Paul Krugman is an exception to the optimistic bent of other economic liberals when he warns: "The idea that technological and economic trends are so powerful now that political forces can't derail them is nonsense."[46] Currently, vast efforts are being made at the international level by state policy-makers, international organisations, and groupings of business actors to develop international governance structures. Although trade negotiations receive the most notice in the public arena, substantial international agreements have been reached, and negotiations continue in the more arcane area of international banking and securities markets. Developments in the arena of foreign investment lie somewhere between these two extremes in terms of public profile. More recently, however, efforts by the OECD to develop a multilateral agreement on investment have been halted by the extent of public opposition.[47]

With few exceptions international negotiations have involved attempts to entrench liberalisation and facilitate further globalisation. The development of larger integrated markets, however, does not mean that they have to be progressively liberalised to continue functioning. The world economy needs to be politically 'managed' and the rules and regulations governing international economic relationships do not necessarily have to be economically liberal. There can be no guarantee that appropriate international regulatory structures will be developed or maintained, or effectively enforced even if they are developed. Support for liberalisation and international institution-building will be heavily influenced by the political proclivities of policy-makers in the economically powerful countries and a change of policy direction in one or several of these powers would, at least, impede economic globalisation. US hostility to international economic institutions would profoundly damage their effectiveness and credibility. An intensification of international competition, especially in the context of renewed or prolonged recession or financial crisis, could lead to a reinvigoration of protectionist and economic nationalist sentiments. The continuing power of politics to shape economic developments should not be underestimated.

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44 Polanyi, *The Great Transformation.*

45 Cited in Wade, "Globalization and Its Limits," p. 60.

46 Cited in A. Farnham, "Global - or just Globaloney," *Fortune*, 27 June, 1994. See also Paul Krugman, *Pop Internationalism*, Cambridge, MIT Press, 1994.

47 See for example Ethan B. Kapstein, *Governing the Global Economy: International Finance and the State*, Cambridge, Harvard University Press, 1994; Geoffrey D. Underhill, "Keeping Governments Out of Politics: Transnational Securities Markets, Regulatory Cooperation, and Political Legitimacy," *Review of International Studies*, 21, 1995.

Globalisation as Convergence

The gradual shift towards economic liberalisation since World War II, especially since the late 1970s, has contributed to the revitalisation of the idea of convergence. According to Berger, ideas about convergence have shifted from interpretations about the determining nature of technological developments and modernisation to the effect of globalisation, liberalisation and international competition. The theory of modernisation posited that there was a particular path to becoming a modern capitalist economy and technological determinists argued that the search for economic success and military sustainability led countries to "progress along a common trajectory of technological possibilities."[48] The new thesis of convergence, Berger argues, revolves around the idea that "competition, imitation, diffusion of best practice, trade and capital mobility naturally operate to produce convergence across nations in the structures of production and in the relations among economy, society and state."[49] It is towards economic liberalism that countries must increasingly converge and current differences, it is argued, will be progressively eroded as markets become more global.

Assessments of whether a process of convergence is occurring are related to the level of analysis one employs and to the question: 'convergence of what?' Over the long-term and at a broad political level, globalisation can be said to involve the convergence towards the nation-state form and, since the collapse of communism, towards the development of democratic institutions and market economies.[50] But as Boyer points out, there is considerable divergence in the institutions of 'democracy' throughout the world and uncertainty about whether democratic developments are irreversible.[51]

Strange argues that differences between countries are inconsequential when compared to the forces propelling convergence: "The differences recorded by the comparatavists in law, politics and sociology pale into relative insignificance beside the common external forces of structural change in the world economy and world society."[52] However, substantial institutional variations and differences in state capacities remain between ostensibly similar countries.[53] Industrial, labour and consumer laws, industrial and labor support networks, welfare systems, public provision of services, regulation of economic activity, all differentiate the way globalisation affects various groups within

48 Suzanne Berger, "Introduction" in Suzanne Berger and Ronald Dore (eds), *National Diversity and Global Capitalism*, Ithaca and London, Cornell University Press, 1996, p. 3.
49 Berger, "Introduction," p. 1.
50 McGrew, "Conceptualizing Global Politics," p. 5.
51 Robert Boyer, "The Convergence Hypothesis Revisited: Globalization but Still the Century of Nations?" in Suzanne Berger and Ronald Dore (eds), *National Diversity and Global Capitalism*, Ithaca and London, Cornell University Press, 1996, pp. 31-2.
52 Strange, "The Limits of Politics," p. 310.
53 Linda Weiss, *The Myth of the Powerless State: Governing the Economy in a Global Era*, Cambridge, Polity Press, 1998.

nation-states.[54] There are also notable differences between countries in political and economic values and cultures. What is considered to be successful adaptation to technological and economic change will be both approached and measured differently by different cultures. As Hurrell and Woods maintain:

> Actors across the globe interpret their choices and constraints in very different ways and these understandings are embedded in very different kinds of domestic institutions and social structures. As a result, the impact of globalisation is nowhere equal and the simple notion of homogenisation conceals a more complex and ambiguous set of processes.[55]

In relation to outcomes, assertions of convergence seem particularly unfounded. Although some previously less developed countries have improved their living standards, many others have seen their already low living standards deteriorate. The gap between rich and poor nations remains immense. There is no guarantee that recent gains made by Asian countries will be sustained or accelerated and the Asian financial/economic crisis illustrates the folly of projections of indefinite high levels of economic growth. Assessments that Asia would catch up to the advanced capitalist countries early in the twenty-first century, based on growth figures over a relatively short period of time, failed to take into account the possibilities of stagnation and reversals of fortune.[56] Continuing discrepancies in economic outcomes illustrate a general trend of the globalisation process: its unevenness and the virtual exclusion of large sections of the globe. Globalisation cannot be defined as a unifying process because many countries and regions are affected only marginally and often only negatively. A country may be affected by globalising processes in some respects, for example, the penetration of its economy by trade, by capital flight and by the decline in prices for commodities; but not in others, such as, the failure to attract adequate sources of investment or to have access to basic telephony, let alone to advanced information technologies. Boyer contends that: "Strong convergence would prevail when the mutual interaction of institutional design with market competition leads to similar performance and eventually to a convergence in productivity levels and living standards."[57]

The idea of convergence is strengthened by the propensity of social scientists to homogenise distinct periods of time and events. It could be argued that across the developed countries after World War II there was a significant process of convergence

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54 Peter Gourevitch, "The Micropolitics of Microinstitutional Differences in the Analysis of Comparative Capitalism" in Suzanne Berger and Ronald Dore (eds), *National Diversity and Global Capitalism*, Ithaca and London, Cornell University Press, 1996.

55 Andrew Hurrell and Ngaire Woods, "Globalisation and Inequality," *Millenium*, 24(3), 1995, p. 455.

56 See for example OECD, *Towards a New Global Age: Challenges and Opportunities*, Paris, OECD, 1997; World Bank, *Global Economic Prospects and the Developing Countries*, Washington, World Bank, 1997.

57 Boyer, "The Convergence Hypothesis Revisited," p. 33.

towards the development of a 'Keynesian, or social democratic, welfare state' and 'Fordist' systems of mass production and consumption.[58] But, at another level of analysis, there remained considerable differences in institutional arrangements, economic aims and political values in the developed capitalist world. According to Müller, Daniel Bell's 'end of ideology' thesis, although capturing the gradual generation of a broad social democratic consensus, "overemphasised the actual degree of consensus between the major political families."[59] Outside the developed capitalist countries, this 'Keynesian' period also included a non-capitalist, socialist bloc and a generally marginalised third world.

Although many states have opened up their economies, descriptions of the current period as economic or neo-liberal fail to capture the continuing differences between types of capitalism. During the Cold War, the existence of two distinct systems made differences between capitalist countries appear less significant in comparison to the comprehensive differences between capitalism and socialism. As international economic negotiations have begun to involve investment, competition and other issues hitherto considered the domain of domestic policy, differences in regulatory structures have become more noticeable and controversial. The divergence in domestic institutional factors was ignored in the post-war trade regime with point of entry barriers becoming the sole focus. With these barriers having been largely eliminated, "the impact of domestic economic policies and institutional arrangements on international economic transactions has soared in salience."[60]

Although there are many variations in capitalist 'models', distinctions are often made between an Anglo-American 'economic liberal' form of capitalism, an Asian 'corporatist' model and a European 'social-capitalist' model.[61] Globalisation is seen to render these differences contentious for two major, contradictory, reasons. As outlined above, economic forces are often seen to push states to either converge around a common set of economic liberal policy norms or risk being marginalised. States, accordingly, will adopt economic liberalism because it produces superior results and/or

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58 See the contributions in Stephen A. Marglin and Juliet B. Schor (eds) *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, Oxford, Clarendon Press, 1991. See also Bob Jessop, "The Transition to Post-Fordism and the Schumpeterian Workfare State" in Roger Burrows and Brian Lester (eds), *Towards a Post-Fordist Welfare State*, London, Routledge, 1994; John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization*, 36(2), Spring, 1982.

59 Wolfgang C. Müller, "Political Traditions and the Role of the State," *West European Politics*, 17(3), July, 1994.

60 John Gerard Ruggie, "At Home Abroad, Abroad at Home: International Liberalisation and Domestic Stability in the New World Economy," *Millenium*, 24(3), 1994, p. 509.

61 See for example Michael Albert, *Capitalism vs. Capitalism*, New York, 1994 and Will Hutton, *The State We're In*, London, Johnathon Cape, 1995. See also the debate on convergence in Berger and Dore, *National Diversity and Global Capitalism*.

because it is unavoidable. National institutions will become more similar and distinctive forms of national capitalism will disappear via 'natural' market developments. At the same time, it is often argued that the European and Asian forms of capitalism provide an unfair advantage due to their subversion of legitimate market processes through illegitimate state intervention.[62] But if globalisation or market forces coerce states into adopting economic liberalism for reasons of superiority or unavoidability then the notion of unfairness is irrelevant: states will adopt alternatives in their own best interests or at their peril. Realistically, policy-makers are aware of the opportunities provided by other countries' open markets whilst restricting access to their own. The recent focus on domestic policies in international trade and investment negotiations and aggressive unilateral American trade policies indicate that the US is not prepared to wait for policy convergence to occur via the pressures of economic globalisation. This has especially been the case during the Clinton administration.

Evans argues that assertions that the state is eclipsed by globalisation need to be explained "in terms of the ideological face of the current global order."[63] The effect of economic liberalism as a global ideology, Evans contends, "goes well beyond the constraints imposed by any structural logic of the international economy":

> The fact that becoming more actively engaged in trying to improve local economic conditions risks the opprobrium, not just of powerful economic actors, but also of the global hegemon makes any state intervention a very risky proposition. An ideology that considers such action neither possible nor desirable does, however, at least release the local state from responsibility for whatever economic woes its citizenry may suffer at the hands of the global economy.[64]

Globalisation as convergence will continue to require considerable political effort to enforce, both at the international and domestic levels. In this endeavour, globalisation as an ideological construction has become an important tool of persuasion.

Globalisation as Persuasion

> The world is out there, but descriptions of the world are not.[65]

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62 Berger, "Introduction," p. 2.

63 Peter Evans, "The Eclipse of the State? Reflections on Stateness in an Era of Globalization," *World Politics*, 50, October 1997, p. 70. See also Paul Krugman, "Dutch Tulips and Emerging Markets," *Foreign Affairs*, July/August, 1995, Ian D. Clark, "Global Economic Trends and Pressures on Governments," *Canadian Public Administration*, 39(4), Winter, 1996, pp. 452-454

64 Evans, "The Eclipse of the State?," p. 72.

65 Richard Rorty, cited in Donald N. McCloskey, *Knowledge and Persuasion in Economics*, New York, Cambridge University Press, 1994, p. 200.

> The realities people experience, then, are not the same for every person or for all time, but rather are relative to social situations and to the signifiers to which observers pay some attention.[66]

> The danger is not that states will end up as marginal institutions but that meaner, more repressive ways of organizing the state's role will be accepted as the only way of avoiding the collapse of public institutions. Preoccupation with eclipse cripples consideration of positive possibilities for working to increase states' capacity so that they can more effectively meet the new demands that confront them.[67]

Although it is evident from the above discussion that there are a variety of ways to define and understand globalisation, it is also evident that many policy-makers, economic elites and analysts believe that globalisation is an inevitable and irreversible process that compels states to embrace economic liberal policies. As will be detailed in chapters six and seven, political rhetoric and policy decisions in Australia in recent years have worked to lower expectations about what is politically possible in a globalising world economy. Globalisation has become a persuasive construction used by political and economic elites to convince populations that certain regulatory structures and redistributive mechanisms are no longer sustainable. Politics, in this view, must succumb to economics, meaning that the only possible response of the state is to increase the scope of the market to determine the future destinies of countries and individuals. Electorates must be disabused of the view that there are alternative ways of dealing with the constraints and pressures generated by participation in the world political economy. According to Hirst and Thompson, an acceptance of such arguments about the inevitability, irreversibility and ubiquity of economic globalisation stifles the political imagination:

> 'Globalization' is a myth suitable for a world without illusions, but it is also one that robs us of hope. Global markets are dominant, and they face no threat from any viable contrary political project, for it is held that Western social democracy and socialism of the Soviet bloc are both finished. One can only call the political impact of 'globalization' the pathology of over-diminished expectations.[68]

If repeated often enough by powerful political and economic actors, arguments about global imperatives may become established 'truths'. That such simplifications of complex issues may provide an incomplete basis for understanding the effects of globalisation and the impact of policy, may matter less than the fact that they provide the basis for decisions. In Australia in the 1980s and 1990, unequivocal interpretations about the exigencies of the world political economy increasingly provided the understandings upon which policy decisions were made. Cerny argues that we need to look beyond the measurement of globalisation to understand its importance:

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66 Murray Edelman, *Constructing the Political Spectacle*, Chicago, The University of Chicago Press, 1988, p. 4.
67 Evans, "The Eclipse of the State?," p. 64.
68 Hirst and Thompson, *Globalization in Question*, p. 6.

> Perhaps its most crucial feature is that it constitutes a *discourse* - and increasingly a hegemonic discourse . . . . The spread of the discourse itself alters the *a priori* ideas and perceptions which people have of the empirical phenomena which they encounter; in so doing, it engenders strategies and tactics which in turn may restructure the game itself.[69]

Authoritative constructions and knowledges and comprehensive efforts to persuade have important impacts in and of themselves. Dominant interpretations can act in a self-fulfilling way as policy decisions based on such interpretations transform economies and policy structures. Perceptions of the world around us and actions based on them are fundamental to the shaping of social, political and economic 'realities'. The extent to which arguments about global imperatives are accepted will undoubtedly influence perceptions about the efficacy of political action. In other words, the economic liberal discourse of globalisation has a crucial effect on the development of globalisation. As Robertson puts it: "conceptions of the world system, including symbolic responses to and interpretations of globalization, are themselves important features in determining the trajectories of that very process."[70]

The consideration of globalisation as persuasion and the attempt to widen its field of meaning does not here involve an attempt to construct an alternative account of 'what globalisation really means'.[71] Nor is it an attempt to assert a clear distinction between the 'rhetoric' and 'reality' of globalisation, ascribing rhetoric (in its pejorative sense) to opposing viewpoints and reality to one's own.[72] As Rose and Miller stress, we need to be aware of "the fundamental role that knowledges play in rendering aspects of existence thinkable and calculable, and amenable to deliberated and planful initiatives."[73] Interpretation is fundamental to all analyses and decisions, whether they support liberalisation, increases in intervention or something else. Policy-makers and analysts construct 'knowledges' of political economic developments, which then provide reference points for policy decisions and non-decisions. Invoking global imperatives may for some policy-makers be an attempt to persuade populations of what they see as the 'reality' of globalisation and does not necessarily involve a cynical manoeuvre to fool the public. But the construction of globalisation as a policy imperative constitutes more than just a theory that attempts to make sense of global

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69 Cerny, "Globalization and Other Stories," p. 620.
70 Robertson, *Globalization*, p. 61.
71 Compare James H. Mittelman, "How Does Globalization Really Work?" in James H. Mittelman (ed), *Globalization: Critical Reflections*, London, Lynne Rienner Publishers, 1996.
72 As in the subtitle of a recent work on globalisation: Jones, *Globalisation and Interdependence in the International Political Economy: Rhetoric and Reality*. See Michael Billig, "Conservatism and the Rhetoric of Rhetoric," *Economy and Society*, 18(2), May, 1989.
73 Peter Miller and Nikolas Rose, "Governing Economic Life," *Economy and Society*, February, 1990; Nikolas Rose, "Government, Authority and Expertise in Advanced Liberalism," *Economy and Society*, August, 1993, p. 3.

'realities'.[74] It is also a claim with political intent. Particular constructions or knowledges of globalisation are used for the political purpose of educating populations about overarching constraints that aim to marginalise alternative views that could be used to justify different policy directions and goals.

Arguments about global imperatives and realities exhibit a level of certainty that belies the complexities, contradictions and unevenness of globalisation. Interpretations of the meaning of globalisation and its effects are substantially dependent on the position of those affected, but dominant interpretations by powerful political and economic actors generally override alternative interpretations that may be more accurate for actors in different circumstances. Support for globalisation and economic liberalism have been elite-led projects with large sections of populations expressing intense reservations.[75] Changing state strategies to deal with the pressures of globalisation have had many negative distributional consequences. Workers in declining industries and regions and those who have been negatively affected by increases in labour 'flexibility' have been generally much less supportive of economic liberalism because its manifestation for them has been increasing unemployment, 'casualisation', declining public services, social dislocation and poverty. Considerable differences in policy preferences exist between business and labour, between different industries (especially between national and international business and between industrial and financial capital), between different regions, sections of labour, and so on.[76] Increased openness to trade and investment has accelerated the rate of economic change and hence of dislocation and uncertainty for sections of society.

The achievement of economic growth is seen as an outcome in which all members of a national community have an interest. At one level, this appeals to commonsense - growth entails an expansion of the national 'cake'. But, at another level, the pursuit of growth through economic liberal policies has led to changing fortunes for particular groups and to increases in inequality. A shift has taken place from the positive sum notion that increased equality and distribution is beneficial for domestic demand and hence for economic growth, to an economic liberal argument that redistribution burdens the nation-state in global competition or leads to economically damaging financial reactions. Arguments about the national interest are often used to marginalise

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74 Gillian Youngs, "Dangers of Discourse: The Case of Globalization" in Eleonore Kofman and Gillian Youngs (eds), *Globalization: Theory and Practice*, London, Pinter, 1996.

75 Leslie Sklair, "Who Are the Globalisers?," *Journal of Australian Political Economy*, 38, 1997; Christopher Lasch, *The Revolt of the Elites and the Betrayal of Democracy*, New York, W. W. Norton, 1995; Robert B. Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, New York, Vintage Books, 1992.

76 See Robert H. Fagan and Michael Webber, *Global Restructuring: The Australian Experience*, Melbourne, Oxford University Press, 1994 and relevant sources above.

assertions about the uneven effects of economic liberal globalisation and to portray those who oppose policy changes as 'vested interests', selfishly damaging possibilities for higher rates of economic growth. Hindess contends that the shift to economic liberalism and the dominance of discourses of globalisation mean that "the national economic interest can hardly mean more than what the most powerful sectional interests take it to mean."[77] The negative effects of policy change may be seen as unfortunate but unavoidable if it is believed that globalisation leads to policy imperatives for governments.

Despite the considerable efforts to persuade and marginalise opponents of globalisation and the shift in policy towards economic liberalism, the differences in the effects of globalisation provide the continuing possibility that interpretative certainties will eventually come unstuck as there can be no guarantee that populations and alternative political groupings will necessarily accept being adjusted to the so-called 'realities' of economic globalisation. The failure to acknowledge or the readiness to ignore the negative effects of economic globalisation and economic liberal policy responses may yet stoke the fires of resistance.

Conclusion

The terms integration, interdependence, global awareness, liberalisation and convergence all describe fundamental aspects of globalisation. Considered together and with an explication of contradictions and complexities, they provide the basis for a more wide-ranging and fluid definition of globalisation that avoids (global) economic determinism. Despite the pervasiveness of economic liberal views of globalisation, especially among political and economic elites, this chapter has argued that there are no straightforward, uncontested, singular or universal explanations of economic globalisation. Instead, globalisation encompasses aspects of integration as well as disintegration; pressures and actions towards liberalisation as well as mercantilistic competition between states; convergence as well as the accentuation of differences; interdependencies as well as dependencies and inequalities; the blurring of internal and external distinctions economically as well as their continuing salience politically; global consciousness and awareness as well as ignorance, hostility and indifference; and, finally, comprehensive constraint as well as persuasive opportunity. Whilst economic globalisation describes the intensification of the effects of the world political economy on nation-states and the policy-making process, it also constitutes an increasingly

77 Hindess, "The World We Have Lost?" p. 238.

dominant construction that has underpinned rhetoric about the limits of politics and about inevitable and irreversible economic liberal policy responses. The next chapter analyses globalisation as a long-term process and explores the extent and effects of its three major components - trade, investment (production) and finance - to provide a more complete picture of the impact of the world political economy on the nation-state and the policy-making process. This provides the context within which arguments about the Australian experience can then be assessed.

Chapter Two

Measuring Economic Globalisation

Introduction

> We are living through a transformation that will rearrange the politics and economics of the coming century. There will be no *national* products or technologies, no national corporations, no national industries. There will be no national economies, at least as we have come to understand that concept. . . . Each nation's primary political task will be to cope with the centrifugal forces of the global economy which tear at the ties binding citizens together - bestowing ever greater wealth on the most skilled and insightful, while consigning the less skilled to a declining standard of living.[1]

> [O]ne of the most harmful habits in contemporary thought, in modern thought even . . . [is] the analysis of the present as being precisely, in history, a present of rupture, or of high point, or of completion, or of a returning dawn . . . I think we should have the modesty to say to ourselves that, on the one hand, the time we live in is not *the* unique or fundamental or irruptive point in history where everything is completed and begun again. We must also have the modesty to say, on the other hand, that . . . the time we live in is very interesting; it needs to be analysed and broken down, and that we would do well to ask ourselves, 'What is the nature of our present?' . . . With the proviso that we do not allow ourselves the facile, rather theatrical declaration that this moment in which we exist is one of total perdition, in the abyss of darkness, or a triumphant daybreak, etc. It is a time like any other, or rather, a time which is never quite like any other.[2]

As the last chapter showed, many analyses of the political economy of the late twentieth century claim that we are at a point of rupture around which the past and future disconnect: that economic globalisation over the past twenty-five or so years signals an inevitable and irreversible reordering of the roles of politics and economics as nation states are overwhelmed by the power of global economic and technological forces. The past, in this view, no longer provides meaningful cues for the future as we confront the demise of the nation-state, geography, work, history, certainty and much else.[3] But if globalisation means a process of increasing interconnection and

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1 Robert B. Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, New York, Vintage Books, 1992, p. 3.

2 Michel Foucault, cited in Barry Smart, *Modern Conditions, Postmodern Controversies*, London, Routledge, 1992, p. 6.

3 See for example Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies*, London, Harper Collins, 1995; Richard O'Brien, *Global Financial Integration: The End of Geography*, London, Pinter, 1992; Jeremy Rifkin, *The End of Work: The Decline of the Global Labor Force and the Dawn of the Post-Market Era*, New York, G. P. Putnam's Sons, 1995; Francis Fukuyama, *The End of History and the Last Man*, London, Penguin, 1992; Paul Kelly, *The End of Certainty*, Sydney, Allen & Unwin, 1992. Ferdinand Mount scornfully outlines the trend: "Of making end-of books, there is no end. *Whitaker's Books in Print*, 1994, lists 150 books entitled *The End of...* Among those things designated for termination are Art Theory, Beauty, British Politics, Central Planning, Christendom (by Malcolm Muggeridge), Comedy, Conversation, Education, Elitism, Empire, Eternity, Gin-and-Tonic-Man (a book about public relations), Housework, Innocence, Insularity, Laissez Faire, Marriage, Modernity, Motherhood, Philosophy, Punishment,

interdependence between societies - which many writers posit as their basic definition - then the process is a *very* old one indeed. The intensification of economic globalisation in recent years is best seen as part of a long-term process of increasing global interconnection which has recovered from the setbacks of two catastrophic world wars, depression and the shift to economic insulation in the interwar years. Placing recent developments in a longer-term context does not mean that the current intensification of economic globalisation is insignificant or that everything of consequence happened quite some time ago. Rather, it is to argue that a healthy scepticism towards endings, inevitability and irreversibility needs to be maintained to investigate claims that globalisation has developed in such a manner that states are compelled to embrace particular policy directions. After outlining the antecedents of globalisation, the chapter explores the development and effects of economic globalisation by considering empirical measurements of longer-term and recent developments in trade, investment and finance for the world and Australia.

Globalisation as a Long-Term Process

> The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality.[4]

Economic globalisation is generally used as a short-hand term to describe the wide-ranging changes in the world economy and the restructuring of national political economies during the last twenty-five or so years.[5] Whilst recent economic globalisation is a development worthy of discussion in its own right, a longer-term focus will help to moderate claims about inevitability and irreversibility and reveal patterns of advancement and retrenchment. Trade between distinct societies is a long-existing phenomenon, predating the development of more organised trade between

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Science, the Cold War (six titles), the Family, the Novel, the World, Time and Zionism - not to mention the most celebrated post-war exercises in Endism, Ideology and History." Ferdinand Mount, "No End in Sight," *Times Literary Supplement*, May 3, 1996, p. 30.

4 Keynes, discussing Europe before World War I. John Maynard Keynes, *The Economic Consequences of the Peace*, London, Penguin, 1988 [1920], pp. 11-12.

5 For example: "With the move toward a posthegemonic order, there emerged a series of structural changes in the global political economy, a period known as globalization." James H. Mittelman, "How Does Globalization Really Work?" in James H. Mittelman (ed), *Globalization: Critical Reflections*, London, Lynne Rienner Publishers, 1996, p. 231.

nation-states.[6] Arguably, the process of globalisation began with the alleged first movement of humans out of Africa, with the era of European colonial conquest the most significant stage of globalisation. Amin argues that globalisation began in 500-300 BC, expanded through the period of mercantilism from 1500 to 1800, and accelerated with the growth of capitalism following 1800.[7] After 1945, the rejection of "extreme economic liberalism," resulted in a period of "controlled globalization." We have now entered, in a phase that Amin marks from 1990, a period of "undeniable deepening of interdependence" and intensive global "financialization."[8] Robertson argues that globalisation dates from the early fifteenth century, "takes-off," in the 1870s and, from the 1920s until the late 1960s, enters a "struggle-for-hegemony" phase which involves "disputes and wars about the fragile terms of the dominant globalization process established by the take-off period."[9] From the late 1960s until the present, globalisation has intensified, although the period we are currently in is still best designated, Robertson argues, as a phase of "uncertainty."[10]

Many writers who are sceptical of claims about the unprecedented nature of current political economic developments point to the high levels of integration and interdependence of the world economy in the period preceding World War I.[11] It is during this period that international finance and trade flourished to a point which has only recently been matched. Hirst and Thompson argue that "in some respects, the current international economy is *less* open and integrated than the regime that prevailed from 1870 to 1914."[12] Sceptics are not confined to any particular position on the political spectrum. Friedman, for example, argues that: "The world is less internationalised in any immediate, relevant, pertinent sense today than it was in 1913 or in 1929."[13] The divergences in prices paid for the same goods, Friedman contends, are greater now than they were at these earlier times because of the level of government intervention. Krugman is similarly sceptical and stresses that hardly anything today is

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6 Grahame Thompson, "Economic Autonomy and the Advanced Industrial State," in Anthony G. McGrew, Paul G. Lewis et al. (eds), *Global Politics: Globalization and the Nation-State*, Cambridge, Polity Press, 1992, p. 198.

7 Samir Amin, "The Challenge of Globalization," *Review of International Political Economy*, 3(2), Summer, 1996, pp. 231-232 & 252.

8 Ibid., p. 252.

9 Roland Robertson, *Globalization: Social Theory and Global Culture*, London, Sage, 1992, p. 59.

10 Ibid., pp. 58-59.

11 Paul Krugman, *Pop Internationalism*, Cambridge, MIT Press, 1994; Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance*, Cambridge, Polity Press, 1996; and Andrew Glyn and Bob Sutcliffe, "Global But Leaderless? The New Capitalist Order" in Ralph Miliband and Leo Panitch (eds), *The Socialist Register 1992*, London, Merlin Press, 1992.

12 Hirst and Thompson, *Globalization in Question*, p. 2.

13 Milton Friedman, cited in John Gerard Ruggie, "At Home Abroad, Abroad at Home: International Liberalisation and Domestic Stability in the New World Economy," *Millenium*, 24(3), 1994, p. 516. See also Stephen D. Krasner, "International Political Economy: Abiding Discord," *Review of International Political Economy*, 1(1), Spring, 1994.

unprecedented: "We are living," he suggests, "in a world which is about as integrated, give or take a few measures, as the world of the 19th century."[14] He criticises those who argue that the world is experiencing a completely new development:

> It is a late 20th-century conceit that we invented the global economy just yesterday. . . . We all know that modern technologies are what make a truly global economy possible; but it turns out that the key enabling technologies were the steam engine and the telegraph. . . . [W]orld trade as a share of world production did not return to its 1913 level until about 1970; . . . net international flows of capital (as opposed to complex financial transactions that do not finance real investment) were a considerably larger share of world savings in the years preceding World War I than they have been even in the 'emerging market' boom of the last few years.[15]

In the case of Australia, the establishment of an electric telegraph link to international lines in 1872 (by submarine cable to Java), increased the global integration of the Australian economy as much as any development that has since taken place. As Dyster and Meredith point out, the connection to international lines "reduced the communication time between Australia's commercial centres and England - and therefore world capital and commodity markets - to a matter of hours rather than weeks or months."[16]

Not everyone agrees on the extent of globalisation in the period before World War I. Cooper, for example, argues that "the integration of the pre-1914 world economy was something of an illusion" and although economic barriers between nations were not as important as they were in the period following, natural barriers impeded integration and interdependence.[17] Undoubtedly, current information technologies and improvements in transportation have accelerated the rate of change. Strange argues that due to the rate of product obsolescence and the increase in the costs of product development, the acceleration of technological change has forced firms to sell on world markets.[18] As Ruggie points out: "the sheer size of investments in and magnitudes of risks in many rapidly changing areas of high technology are increasingly beyond the capacity of even the largest firms."[19] In addition, whilst capital flows may have been high in the late nineteenth century, the growth of speculative capital flows since the early 1970s constitutes one of the most important components of recent economic globalisation, involving a separation of financial flows from the production process. It is also important to acknowledge that the extent of economic globalisation in the nineteenth

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14 Krugman, cited in Alan Farnham, "Global - or just Globaloney," *Fortune*, 27 June, 1994, p. 58.
15 Krugman, *Pop Internationalism*, pp. 207-208.
16 Barrie Dyster and David Meredith, *Australia in the International Economy in the Twentieth Century*, Melbourne, Cambridge University Press, 1994, p. 18.
17 Richard N. Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community*, New York, Columbia University Press, 1980 [1968], p. 152.
18 Susan Strange, "Wake Up, Krasner! The World *Has* Changed," *Review of International Political Economy*, 1(2), 1994, p. 210.
19 Ruggie, "At Home Abroad, Abroad at Home," p. 521.

century was a comprehensive development in itself and the fact that trade and capital flows did not return to previously achieved levels until recently does not make late twentieth century economic globalisation insignificant.

Politically and socially there are substantial differences between late nineteenth and late twentieth century globalisation. As will be discussed in the following chapter, the development of the universal franchise and rising societal expectations and demands over the course of the twentieth century, particularly after World War II, mean that the intensification of economic globalisation since the 1970s has occurred within a different socio-political environment to that of the world before 1914. In relation to socio-political factors, it is the post-war period that provides a more pertinent comparison for the present. Since the breakdown of Bretton Woods and with widespread financial liberalisation, Pauly argues that:

> The resulting policy mix - international capital mobility and flexible exchange rates, together with continued national responsibility for the broadly defined security of citizens - is beginning to look historically unprecedented.[20]

Nineteenth and early twentieth century globalisation and its reversal in the interwar years provide us with a pertinent example of how economic liberal globalisation can lead to reactions that slow and even reverse its progress.

Measuring Trade

In the nineteenth and early twentieth century, world trade grew significantly faster than world output under the hegemony of free trading Britain which pushed for and underpinned a liberal world economy in order to exploit its industrial and financial might. The highest growth rates of the nineteenth century were registered between 1840 and 1870 and, despite a reversion to protectionism in the latter part of the nineteenth century, world trade continued to expand significantly between 1870 and 1913. By 1913, the volume of world trade per capita "had grown to over 25 times what it had been in 1800, whereas world output per head had grown only 2.2 times over the same period." This means, Kenwood and Lougheed report, that between 1800 and 1913, "the ratio of world trade to world product rose to over 11 times its initial level."[21]

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20 Louis W. Pauly, "Capital Mobility, State Autonomy and Political Legitimacy," *Journal of International Affairs*, 48(2), Winter, 1995, p. 372.

21 A. G Kenwood and A. L. Lougheed, *The Growth of the International Economy: 1820-1990*, London, Routledge, 1992, pp. 78-79.

As Table 1 shows, world trade expanded at an average annual rate of 3.5 per cent between 1870 and 1913, whilst output increased at a rate of 2.7 per cent.[22]

Table 1: Growth of World Output and World Trade 1870-1990

		Output	Trade
		Annual percentage growth rates[1]	
Pre-WWI:	**1870-1913**	2.7	3.5
Interwar:	**1913-1937**	1.8	1.3
	1913-1929	2.3	2.2
	1929-1937	0.8	-0.4
Postwar:	**1950-1990**	3.9	5.8
	1950-1973	4.7	7.2
	1973-1990	2.8	3.9

[1] Calculated peak to peak.
Source: Michael Kitson and Jonathon Michie, "Trade and Growth: A Historical Perspective" in Jonathon Michie and John Grieve Smith (eds), *Managing the Global Economy*, Oxford, Oxford University Press, 1995, p. 7.

After the catastrophe of World War I, the 1920s was a period of uncertainty for world trade. The war damaged trade relations and left two of the world's most important economies - Britain and Germany - in economic disarray. World trade growth slowed significantly in the early post-World War I period and then declined after 1929 as countries turned inward in reaction to growing economic difficulties. Between 1913 and 1937, trade increased at a rate of 1.3 per cent which was below the growth of output at 1.8 per cent. And between 1929 and 1937 world trade declined at a rate of 0.4 per cent with output increasing by only 0.8 per cent.[23]

By the late 1940s, after a depression, a shift to insularity, and another World War, world trade had significantly declined in importance compared to its position in 1913. The US-dominated post-war world economy provided a conducive environment for the expansion of world trade: deliberate and considered reconstruction in Europe, gradual trade liberalisation and expansionary economic policies. World trade grew quickly at an annual rate of 7.2 per cent between 1950 and 1973, faster than world output which grew at 4.7 per cent. Despite this sustained expansion, it took until 1970 for world trade, as a percentage of world output, to reach the levels of 1913.[24]

With the end of the 'long boom' and as the world economy oscillated between recession and stagnation, the growth of world trade slowed dramatically. States

22 Michael Kitson and Jonathon Michie, "Trade and Growth: A Historical Perspective" in Jonathon Michie and John Grieve Smith (eds), *Managing the Global Economy*, Oxford, Oxford University Press, 1995, p. 7.
23 Ibid.
24 UNCTAD, *World Investment Report 1994: Transnational Corporations, Employment and the Workplace*, New York, United Nations, 1994, p. 127; Krugman, *Pop Internationalism*, p. 208.

attempted to shield their economies from the effects of global recession and increased competition from newly industrialising economies, by resorting to non-tariff barriers, voluntary export agreements and orderly marketing arrangements. International trade in the 1970s and 1980s involved contradictions and uncertainties similar to those of the nineteenth century - shifts towards protectionism within a context of increasing trade.[25] World trade grew at 3.9 per cent between 1973 and 1990, faster than output at 2.8 per cent.[26] Between 1990 and 1996, the volume of world merchandise exports grew at an annual average rate of 6 per cent, whilst world merchandise production grew at only 1.5 per cent. The growth rate of world merchandise trade slowed to 5 per cent in 1996 after expanding by 10 per cent in 1994 and by 8.5 per cent in 1995.[27] Trade in services, as a percentage of total world trade, increased from 17.0 per cent in 1980 to 22.2 per cent by 1993.[28]

For the western developed countries, Bairoch reports that exports of merchandise as a percentage of GDP were 11.7 percent in 1890, 12.9 percent in 1913, 6.2 percent in 1938, 7.8 percent in 1950, 10.2 percent in 1970 and 14.3 percent in 1992.[29] For the OECD countries, exports as a percentage of GDP increased from 12.3 per cent in 1960 to 20.0 per cent in 1995; for the G7, exports increased from 10.4 to 16.6 per cent; and for the smaller OECD countries, from 21.6 to 33.9 per cent.[30] World trade continues to be concentrated in the developed world. Although some developing countries, especially the export-oriented Asian countries, have increased their share of world trade, their gains have not significantly changed the overall picture. According to UNCTAD, the developed world's share of world exports declined from 70.9 per cent in 1970 to 62.6 per cent in 1980, increasing to 72.4 per cent in 1992.[31] Even though manufactured exports have grown significantly in East Asia, by 1989 the developing

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25 Andrea Boltho, "The Return of Free Trade," *International Affairs*, 72(2), 1996.

26 Kitson and Michie, "Trade and Growth," p. 7.

27 World Trade Organisation, *Annual Report 1997: Volume I*, Geneva, 1997, p. 11. There are some differences in the subject of measurement in figures for world trade. The WTO divides its figures between trade in merchandise and trade in services, whilst other statistics collating organisations combine them. What is necessary is consistency in data series and making sure that the subject of measurement remains the same when comparisons are being made.

28 Beth V. Yarbrough and Robert M. Yarbrough, "The 'Globalization' of Trade: What's Changed and Why?" in Satya Dev Gupta (ed), *The Political Economy of Globalization*, Boston, Kluwer Academic Publishers, 1996, p. 88.

29 Paul Bairoch, "Globalization Myths and Realities: One Century of External Trade and Foreign Investment" in Robert Boyer and Daniel Drache (eds), *States Against Markets: The Limits of Globalization*," London, Routledge, 1996. 'Western developed countries' includes Western Europe, the US, Canada, Australia, NZ and Japan. Three year averages except for 1950.

30 OECD, *Historical Statistics: 1960 - 1995*, Paris, 1997, p. 76.

31 UNCTAD, *Handbook of International Trade and Development Statistics 1993*, New York and Geneva, United Nations, 1994, p. 28. The developed world's share of world imports was 71.6 per cent in 1970, 68.3 per cent in 1980, increasing again to 71.4 per cent by 1992.

world "still accounted for only 16 per cent of world manufactured exports."[32] As Wade points out, declining prices for commodities have had a significant effect on the exports of the developing world: "Since 1980 average commodity prices have dropped by more than one-half in real terms."[33]

An important shift in world trade has been the expansion of intra-industry trade. As Yarbrough and Yarbrough point out, the historical pattern of trade has been inter-industry, resources for manufactures and so on, but more recently there has been a shift to the export and import of similar goods, such as the simultaneous import and export of automobiles and other manufactures. Also important, because it links trade to international production and investment, is intra-firm trade.[34] The measurement of this trade within corporate structures, however, is marred by poor data. According to a report by the OECD, detailed data is only available for the US and Japan, with the US the only country that keeps reliable statistics. The data for the US indicates that about one-third of its total trade is intra-firm. Significantly, this figure showed little change between 1977 and 1989; declining between 1977 and 1982 and then regaining its previous level by 1989.[35] Wade argues that the extent and significance of intra-firm trade for the world as a whole has possibly been exaggerated by extrapolation from US data.[36] Notwithstanding these measurement shortcomings, the high level of intra-firm trade, which by definition bypasses the market, has important implications for the way we view world trade, especially for assertions about the extent of trade that takes place under liberal rules.[37]

Australia

In the nineteenth century, Australian trade levels fluctuated widely. As a percentage of GDP, exports grew from under 10 per cent in the 1820s to a high of 47.3 per cent in 1852, remaining at about 40 per cent for much of the 1850s. From this high point exports began to decline, averaging 27.3 per cent of GDP in the 1860s, 21.1 per cent in the 1870s and 15.5 per cent in the 1880s, reaching a low point of 12.4 per cent of GDP in 1887. Between 1890 and 1914, exports increased once again, reaching a high of 27.8

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32 Robert Wade, "Globalization and Its Limits: Reports of the Death of the National Economy are Greatly Exaggerated" in Suzanne Berger and Ronald Dore (eds), *National Diversity and Global Capitalism*, Ithaca and London, Cornell University Press, 1996, pp. 67-68.

33 Ibid., p. 68.

34 Yarbrough and Yarbrough, "The 'Globalization' of Trade." Intrafirm trade - "defined as the international exchange of goods and services within a multinational enterprise" - is distinct from intra-industry trade - "defined as the exchange by two countries of goods and services within the same product category." OECD, *Intra-Firm Trade*, Paris, OECD, 1993, p. 7.

35 OECD, *Intra-Firm Trade*, p. 8. The report argues that no figures on intra-firm trade as a percentage of total trade are available for Japan.

36 Wade, "Globalization and Its Limits," p. 67.

37 Keith Cowling and Roger Sugden, *Beyond Capitalism*, London, Pinter Publishers, 1994, p. 69.

per cent in 1906, before declining to 19.8 per cent of GDP in 1914. In the interwar years, exports reached a high of 23.9 per cent in 1920 and a low of 13.8 per cent in 1930.[38] In the early post-World War II period, Australia benefited from the increased demand for wool and other resources during the Korean War, with the export share of GDP reaching 29.7 per cent in 1950-51. The blow out of imports to 32.1 per cent of GDP in the following year led to a substantial current account deficit. After this short boom, however, and as Table 2 shows, exports declined and stabilised at about 15 per cent of GDP from the 1960s to the mid-1980s. Since then exports have gradually risen, reaching 20.1 per cent in 1995-96. Whilst exports as a percentage of GDP increased in most other developed countries during the post-war period, Australia's level of exports declined. Australia's ratio has been particularly low when compared with other small developed countries.

Table 2: Australian Exports and Imports of Goods and Services as a Percentage of GDP at Current Prices

Year	Exports of G & S as a % of GDP	Imports of G & S as a % of GDP
1949-50	24.6	23.8
1954-55	17.0	19.8
1959-60	15.0	16.0
1964-65	14.8	16.8
1969-70	14.9	14.9
1974-75	15.6	17.4
1976-77	15.3	15.9
1979-80	17.8	17.1
1982-83	14.8	16.8
1985-86	16.1	19.1
1988-89	16.2	17.9
1991-92	17.9	17.4
1994-95	18.9	20.8
1995-96	20.1	20.2

Source: ABS, 1995-96 *Balance of Payments and International Investment Position*, Commonwealth of Australia, 1997, p. 81; R. A. Foster and S. E. Stewart, *Australian Economic Statistics: 1949-50 to 1989-90*, Sydney, RBA, 1991, p. 21.

From the late 1950s, Australia's trade shifted away from Britain and Europe towards Asia, particularly Japan. In 1951, Britain purchased 33 per cent of Australia's merchandise exports, but by 1976 this figure had fallen to 4 per cent. Japan increased its share from 6 per cent in 1951 to 33 per cent in 1976. The shift from Britain to Japan also involved a shift from agricultural to mineral exports. Imports continued to come mainly from the US, Britain and other European countries, but Britain's share declined significantly - from 48 per cent in 1951 to 8 per cent in 1981. In the 1980s, Japan remained the largest destination for exports, but the share of China, Korea and

38 Brian Pinkstone, *Global Connections: A History of the Exports and the Australian Economy*, Canberra, AGPS, 1992, pp. 43 & 393.

Southeast Asia grew considerably.[39] In 1997, Japan was the largest destination for merchandise exports with a 20 per cent share, followed by Korea with 8 per cent and the US with 7 per cent. The largest source of imports in 1997 was the US with a 22 per cent share, followed by Japan with 14 per cent and Britain with 6 per cent.[40]

Australia differs from most other developed countries in that its export structure is dominated by primary commodities.[41] Primary commodities made up 86 per cent of Australia's exports in 1965, declining to 63 per cent in 1990 and 59 per cent in 1997. Despite this considerable fall, Australia's reliance on commodities is still among the highest for developed countries.[42] In 1997, nine out of the top ten Australian exports were primary products, with the one exception - aluminium - a simply transformed manufacture. On the other side of the trade ledger, nine out of the top ten Australian imports were elaborately transformed manufactures.[43]

Table 3: Australia's Terms of Trade

1936-37/1938-39 = 100		1989-90 = 100	
1911-12	111	1961-62	106.4
1916-17	104	1964-65	114.1
1921-22	74	1967-68	108.2
1926-27	115	1970-71	101.7
1931-32	71	1973-74	127.3
1936-37	118	1976-77	107.3
1941-42	66	1979-80	101.4
1944-45	65	1982-83	97.6
1947-48	104	1985-86	88.7
1950-51	175	1986-87	82.7
1953-54	122	1988-89	100.6
1956-57	106	1991-92	92.3
1959-60	89	1994-95	91.7

Source: Brian Pinkstone, *Global Connections: A History of Exports and the Australian Economy*, Canberra, AGPS, 1992, pp. 354-355 & 367; R. A. Foster, *Australian Economic Statistics: 1949-50 to 1994-95*, Reserve Bank of Australia, 1996, p. 30.

As Table 3 shows, Australia's terms of trade, shaped by the reliance on primary commodities exports, has been both remarkably variable and in long-term decline over the twentieth century (especially over the last 30 years).[44] Since the first decade of the

39 Robert H. Fagan and Michael Webber, *Global Restructuring: The Australian Experience*, Melbourne, Oxford University Press, 1994, pp. 49-51.

40 Department of Foreign Affairs and Trade, *Composition of Trade: Australia 1997*, Canberra, 1998, pp. 11-12.

41 New Zealand and South Africa share this characteristic, but differ, of course, in many other ways.

42 John Ravenhill, "Australia and the Global Economy" in Stephen Bell and Brian Head (eds), *State, Economy and Public Policy in Australia*, Melbourne, Oxford University Press, 1994, p. 80. For the 1997 figure, see Department of Foreign Affairs and Trade, *Composition of Trade*, p. 4.

43 Department of Foreign Affairs and Trade, *Composition of Trade*, pp. 5 & 7.

44 The terms of trade is a ratio of the index of the average price level for exports to the index of the average price level for imports. A declining terms of trade indicates that the average price of imports is increasing at a greater rate or falling at a slower rate than the average price of exports. Declining terms of trade have a negative impact on a country's trade balance, at least initially: if

twentieth century, Australia's terms of trade have declined at an annual average rate of 0.4 per cent. Between 1976 and 1985, this rate increased to 2.5 per cent.[45] Australia's bias towards mineral and agricultural exports means that it is subject, to a much greater degree than other developed countries, to fluctuating levels of growth in the world economy and high levels of agricultural protectionism.[46] For most of Australia's history, commodity exports have generated substantial wealth, but a continuing reliance on such exports places Australia in a precarious position because it means that most exports remain in a sector of world trade that has progressively declined in importance over the twentieth century.[47]

Although there have been some improvements in the overall level of exports in Australia, imports have also grown: from 1992 to 1997, merchandise exports grew at a rate of 8 per cent per annum, whilst imports grew at 9 per cent.[48] Manufactures increased their share of exports from 20 per cent in 1980 to 35 per cent in 1993.[49] Exports of elaborately transformed manufactures (ETMs) increased over the 1980s and early 1990s: from 20 per cent of total commodity exports to 30 per cent. ETM exports have also increased relative to ETM imports: from 15 per cent in 1986 to 30 per cent in 1993, which still constitutes a sizeable deficit in ETM trade. After improvements in the late 1980s and early 1990s, Bell argues that: "the rate of growth of total manufactures exports is now tailing off and is exceeded by the rate of import growth."[50] Australia's inability to produce a consistent surplus on its trade in goods and services has been an important factor in why the current account deficit has steadily worsened in recent years. This deterioration leaves Australia vulnerable to changes in international financial sentiment. But more important over the longer-term is the fact that, as Kearney notes, "policy-makers are forced to induce reductions in growth and employment in order to satisfy the external constraint."[51]

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volumes of imports and exports remain the same, then a decline in the terms of trade signals that exporters are receiving less in international markets and importers are paying more. Currency movements, however, will mean that volumes of trade will not remain static.

45 A. G. Kenwood, *Australian Economic Institutions Since Federation*, Melbourne, Oxford University Press, 1995, p. 21.

46 Ravenhill, "Australia and the Global Economy," p. 75.

47 See the table in Pinkstone, *Global Connections*, p. 376.

48 Department of Foreign Affairs and Trade, *Composition of Trade*, p. 1.

49 World Bank, *World Development Report 1997: The State in a Changing World*, Washington, Oxford University Press, 1997, p. 243.

50 Stephen Bell, *Ungoverning the Economy: The Political Economy of Australian Economic Policy*, Melbourne, Oxford University Press, 1997, p. 244.

51 Colm Kearney, "Australia's External Constraint" in Greg Mahony (ed), *The Australian Economy Under Labor*, Sydney, Allen & Unwin, 1993, p. 16.

The Role of the State

Over the post-war period, state policy has been vital in spurring the growth of trade. Multilateral and regional negotiations and unilateral policy decisions to reduce barriers and increase market access have provided a generally conducive environment for trade expansion, despite the shift to non-tariff barriers in the 1970s. The various rounds of the GATT reduced tariff levels significantly in the developed world and the more recent embrace by many developing countries of policies of export enhancement and liberalisation has added to the momentum of trade liberalisation. According to the World Bank, 58 out of 72 unilateral decisions to liberalise trade barriers occurred in developing countries in the late 1980s and early 1990s.[52] Many areas of trade, however, continue to be subject to high levels of protection, especially agriculture. The much-heralded liberalisation of agricultural trade in the Uruguay Round of the GATT has, in some cases, led to increases in agricultural protectionism.[53] Having unilaterally reduced tariffs during the 1980s and 1990s, the Labor Government encouraged other states to do the same, but the success of this strategy has been equivocal at best.[54] Unilateral trade liberalisation reduced the bargaining tools available to Australia in both multilateral and bilateral trade negotiations.

Although fears about a comprehensive return to protectionism have subsided in the 1990s, significant trade barriers remain, particularly non-tariff barriers. Further tests for liberal trade will undoubtedly arise: it is much easier to lower barriers to trade when they are high or when there are alternative methods of protection. Continued liberalisation of tariff barriers and the newer focus of trade negotiations on policies hitherto considered domestic prerogatives, will undoubtedly increase trade tensions, as will the new, stronger dispute resolution ability of the WTO. Commitments made to lowering trade barriers in multilateral and regional forums will be tested in the medium to long-term as deadlines approach. Although not necessarily signalling increasing protection, regional trade agreements give many countries an alternative to multilateralism and provide the potential for a world of protectionist trade blocs. A shift away from freer trade is an ever-present possibility. Most important will be US policy choices - a renewal of protectionist sentiment or refusal to abide by the rulings of the WTO would slow the pace of world trade and set back the development of freer trade.

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52 Yarbrough and Yarbrough, "The 'Globalization' of Trade," p. 94.

53 Brendan Pearson, "Trade Barriers Worse Than Before: ABARE," *Australian Financial Review*, 26 February, 1999, p. 12.

54 Compare Richard Higgott, "The Politics of Australia's International Economic Relations: Adjustment and Two-Level Games," *Australian Journal of Political Science*, 26(2), 1991. See also chapter 6.

The continuing importance of the role of the state in international trade is indicated by efforts to include domestic policy issues in international trade negotiations. As Ruggie argues:

> the post-war trade regime was intended to achieve and maintain a sustainable balance between the internal and external policy objectives of governments, in keeping with the embedded liberalism compromise. It was not designed to restructure domestic institutional arrangements. Yet, domestic restructuring is what the trade policy agenda increasingly has come to be about. Highly politicised trade policy disputes and potential instability in trade relations appear to be the virtually inevitable consequence of successful liberalisation.[55]

Liberal international regulatory structures may restrict policy choices, but they can also provide a discipline on domestic interest groups and sections of the state itself. As the GATT secretariat acknowledged long ago: "It was the original purpose of the GATT - and of the broader concepts of multilateralism, or international economic cooperation - to strengthen governments against the particularist pressures emanating from national economies."[56] According to some writers, agreements between states that limit the policy discretion of future governments aim to 'constitutionalise' a liberal world political economy and indicate uncertainty on the part of globalising policy-makers and transnational actors who, whilst arguing that globalisation is irreversible, "are actively creating new international institutions and agreements to threaten any country contemplating such a reversal with collective retaliation."[57] Efforts by states to subsidise exports are likely to come under increasing attack as local content arrangements, export enhancement programmes and other industry policies become the subject of international bargaining through the WTO and multilateral investment negotiations. While some countries would benefit from restrictions on industry policies, others could be locked into low wage, low productivity activities.

Although freer trade may bring longer-term benefits to an economy, it has many short-term, conspicuous costs. Increased competitive pressures spur higher productivity and innovation, but also lead to the continual pressures for governments, industries and workers to adjust. Increased trade competition and the shift to export-oriented economic strategies has intensified competitive pressures between countries, putting pressure on policy-makers to focus on microeconomic reforms that reduce the costs and imposts on exporters.[58] Although the effects of trade and international economic

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55 Ruggie, "At Home Abroad, Abroad at Home," p. 516.

56 GATT/1340, "Prospects for International Trade," 30 August, 1983, cited in Industries Assistance Commission, *Annual Report, 1984-85*, Canberra, AGPS, 1985, p. 3.

57 Manfred Bienefeld, "Capitalism and the Nation State in the Dog Days of the Twentieth Century" in Ralph Miliband and Leo Panitch (eds), *The Socialist Register - 1994*, London, Merlin Press, 1994, p. 103. See also Stephen Gill, "Economic Globalization and the Internationalization of Authority: Limits and Contradictions," *Geoforum*, 22(3), 1992.

58 Geoffrey Garrett, "Capital Mobility, Trade, and the Domestic Politics of Economic Policy," *International Organization*, 49(4), Autumn, 1995, p. 682; Gregory Albo, "'Competitive Austerity'

competition are less immediate and exciting than the effects of global finance, Garrett argues that:

> The prospects for open economies that do not compete well in international markets are grim. Unemployment will rise and economic growth will slow down. Running large trade deficits is infeasible in the long-run because of the outflows of capital they necessarily entail.[59]

Increased trade and efforts to improve trade performance do not compel a reduction in the role of the state or make policy choices less important. As Evans attests: "Existing cross-national statistics suggest that greater reliance on trade is associated with an increased role for the state rather than a diminished one." Indeed, the evidence, he argues, appears to run the other way: significant state involvement "may even be a competitive advantage in a globalized economy."[60] States continue to mediate the effects of the world political economy and to shape national economic competitiveness. By providing infrastructure, education, training and health care, research and development support, effective legal structures and various types of industry assistance, states can bolster the competitiveness of firms. Further, as UNCTAD acknowledges, it is "through national institutions that the potential gains (or losses) from increased international economic integration are distributed."[61]

In sum, trade developments over the twentieth century show the ability of the nation state and politics to impede and reverse economic interconnection. The ability to reimpose trade restrictions remains and, despite the increased importance of trade, it is worthwhile reflecting on the fact that:

> The share of world trade in GDP is still quite small in all but the smallest countries. Exports account for 12 percent of GDP or less for the United States, Japan, and single-unit Europe, and the Asian and Latin American averages are well below 10 percent.[62]

Nationally-focused economic activity is still dominant and trade continues to be heavily regulated. Technological developments are said to make the restrictive regulation of currency and bond markets extremely difficult, but this is not the case in the area of trade (and direct investment). National borders remain important control points for merchandise trade.[63]

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and the Impasse of Capitalist Employment Policy" in Ralph Miliband and Leo Panitch (eds), *The Socialist Register - 1994*, London, Merlin Press, 1994.

59 Garrett, "Capital Mobility, Trade, and the Domestic Politics of Economic Policy," p. 669.

60 Peter Evans, "The Eclipse of the State? Reflections on Stateness in an Era of Globalization," *World Politics*, 50, October 1997, pp. 67-68. See also Michael E. Porter, *The Competitive Advantage of Nations*, London, Macmillan, 1990; Jonathon Michie and John Grieve Smith (eds), *Globalization, Growth and Governance: Creating an Innovative Economy*, Oxford, Oxford University Press, 1998.

61 UNCTAD, *World Investment Report 1994*, p. 119.

62 Wade, "Globalization and Its Limits," p. 66.

63 Ibid., p. 70.

Measuring Foreign Investment and International Production

As with trade, substantial growth and high levels of foreign direct investment (FDI) have significant precedents in the period before World War I.[64] As Table 4 shows, FDI as a percentage of world output was 9.0 per cent in 1913, a figure not reached again until the mid-1990s.[65] Over the course of the nineteenth century, foreign investment expanded considerably, with Britain the most important source.[66] In 1913, Britain accounted for 43 per cent of total foreign investment (direct and portfolio) and Kenwood and Lougheed calculate that: "between 1870 and 1914 the annual outflow of capital from Britain for investment overseas averaged approximately 4 per cent of national income."[67] Between 1905 and 1913, annual outflows from Britain averaged nearly 7 per cent, reaching 9 per cent of national income in 1913.

In 1913, FDI was directed mainly towards the primary sector which accounted for 55 per cent, compared to 30 per cent for transportation, trade and distribution and 10 per cent for manufacturing.[68] A large proportion of total foreign investment in the nineteenth century was in the form of long-term bonds used to finance the construction of public infrastructure, particularly railways.[69] As Kozul-Wright argues, the period before 1914 provided a conducive environment for capital movements:

> An open regulatory framework prevailed: short-term and long-term capital movements were unsupervised; the transfer of profits was unhampered; the gold standard was at its height and . . . direct political influence over the allocation of resources was limited.[70]

FDI was less affected than trade by the political and economic turmoil of the interwar years, with FDI stocks almost doubling between 1914 and 1938. Although at the outbreak of World War II Britain was still the biggest foreign investor, during the interwar period its level of outward investment gradually declined whilst that of the US increased. In 1938, Britain accounted for slightly less than 40 per cent of FDI stocks, with the US accounting for almost 30 per cent.[71]

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64 "For foreign investment in Australia, a direct investment relationship is deemed to exist between a resident enterprise and a foreign individual or enterprise having an equity interest in that resident enterprise of at least 10 per cent." Australian Bureau of Statistics, *Measuring Australia's Economy*, Canberra, Commonwealth of Australia, 1994, p. 43.

65 UNCTAD, *World Investment Report 1994*, p. 130; UNCTAD, *World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy*, New York, United Nations, 1997, p. 339.

66 Kenwood and Lougheed, *The Growth of the International Economy*, p. 26.

67 Ibid., p. 27.

68 UNCTAD, *World Investment Report 1994*, pp. 120-121.

69 Richard Kozul-Wright, "Transnational Corporations and the Nation State" in Johnathon Michie and John Grieve Smith (eds), *Managing the Global Economy*, Oxford, Oxford University Press, 1995, p. 142.

70 Ibid., pp. 139-140.

71 Ibid., p. 145.

Table 4: The Role of Foreign Direct Investment in World Economic Activity

Item	1913	1960	1975	1980	1985	1991	1995
	percentage						
World FDI stock as a share of world output	9.0	4.4	4.5	4.8	6.4	8.5	10.1
World FDI inflows as a share of gross fixed capital formation	..	1.1	1.4	2.0	1.8	3.5	5.2

Source: UNCTAD, *World Investment Report*, various issues.

From the end of World War II until the mid-1950s, only the US was in a position to export large quantities of capital. Between 1938 and 1960 total stocks of US outward private foreign investment tripled. FDI from the US surged in the 1960s and early 1970s, slowed from the mid-1970s to the early 1980s, and then expanded rapidly once again. US investment was mainly in other developed countries until the mid-1960s, after which investment increased in Brazil and Mexico and, from the early 1980s, East Asia. The majority of US investment (about 70 per cent), however, still goes to other developed countries.[72] After liquidating one-third of the value of its total private foreign investment during the war, by the 1950s, Britain had resumed foreign investment and, during the 1960s and 1970s, it once again became a major source of investment. From the late 1960s, Japan also began to be a significant exporter of capital. Whilst in 1971, the value of Japanese FDI stock was $US4.5 billion, by 1989, it had reached $US186 billion, ranking it as the third largest direct investor. From the early 1960s, France, Germany and the Netherlands also increased foreign investment. Despite these post-war increases, by 1980, FDI as a share of world output was still only a little over a half of what it had been in 1913.[73]

Tables 5 and 6 provide an indication of the relative importance of FDI in recent years. Table 5 shows that as a percentage of gross fixed capital formation (GFCF), both inward and outward FDI flows remain reasonably small, ending 1995 at slightly less than the annual averages for 1985-1990. For the US, outward flows had increased in importance by the mid-1990s, but flows appear to be significantly affected by cyclical factors. For Japan, inward FDI is of no consequence for capital formation. For some smaller countries, such as Sweden and Australia, flows are more important. For the developing world as a whole, inward and outward flows as a percentage of GFCF averaged annually 8.0 and 3.5 per cent respectively between 1985 and 1990, increasing

72 UNCTAD, *World Investment Report 1997*, p. xix.
73 All of these figures are from Kenwood and Lougheed, *The Growth of the International Economy*, pp. 250-253.

marginally in 1995 to 8.2 and 4.0 per cent, after declining in the early 1990s. Investment remains primarily a national phenomenon.[74]

Table 5: Inward and Outward FDI Flows as a Percentage of Gross Fixed Capital Formation

Item		1985-1990 Annual Average	1991	1992	1993	1994	1995
World	*inward*	5.4	3.1	3.3	4.4	4.5	5.2
	outward	6.0	3.9	3.8	4.8	4.7	5.6
US	*inward*	5.3	3.1	2.4	4.9	4.8	5.9
	outward	6.9	4.5	4.9	8.5	4.9	9.0
Japan	*inward*	0.2	0.2	0.2	-	0.1	-
	outward	3.5	3.0	1.5	1.1	1.4	1.5
Germany	*inward*	1.6	1.0	0.6	0.4	0.2	1.7
	outward	10.4	6.0	4.3	3.7	3.7	6.7
Sweden	*inward*	16.2	13.7	-	14.0	23.3	42.8
	outward	20.2	15.7	1.0	5.6	24.6	32.2
Australia	*inward*	11.2	6.6	8.7	5.3	5.7	20.0
	outward	4.6	5.0	1.5	3.1	7.6	5.7

Source: UNCTAD, *World Investment Report 1997*, Geneva, 1997, pp. 325-326.

Table 6: Inward and Outward FDI Stock as a Percentage of GDP

Item		1980	1985	1990	1995
World	*inward*	4.6	6.4	8.3	10.1
	outward	4.9	5.9	8.1	9.9
US	*inward*	3.1	4.6	7.2	7.7
	outward	8.1	6.2	7.9	9.8
Japan	*inward*	0.3	0.4	0.3	0.3
	outward	1.8	3.3	7.0	6.0
Germany	*inward*	4.5	6.0	7.4	6.9
	outward	5.3	9.7	10.1	10.8
Sweden	*inward*	2.9	5.0	5.4	15.9
	outward	4.5	12.3	21.5	31.2
Australia	*inward*	8.7	15.6	25.9	30.8
	outward	1.5	4.1	10.2	11.9

Source: UNCTAD, *World Investment Report 1997*, Geneva, 1997, pp. 339-340.

Table 6 indicates that FDI stocks as a percentage of total world output doubled between 1980 and 1995, increasing from around 5 per cent to 10 per cent. The world's most important source and location for FDI, the US, doubled its stock of inward FDI to 7.7 per cent and increased its outward FDI by a smaller margin to nearly 10 per cent. Japan's stock of inward investment remains insignificant, whilst its outward stock increased until 1990, declining thereafter to 6 per cent of GDP in 1995. German outward FDI stock nearly doubled between 1980 and 1985, but since then has remained

74 For an extended discussion of this issue see Timothy Koechlin, "The Globalization of Investment," *Contemporary Economic Policy*, 13, January, 1995.

relatively stable. For Sweden, outward investment stock increased six times between 1980 and 1995 giving some indication of the extent of Swedish industry's shift abroad. Between 1990 and 1995, however, inward stock tripled, growing at a faster rate than outward stock.

UNCTAD reports that FDI increased by 10 per cent in 1996, growing at a faster rate than world GDP (6.6 per cent) and trade (4.5 per cent).[75] Total inflows in 1996 were $US349 billion, whilst outflows reached $US347 billion. In 1996, there were nearly 45,000 MNCs whose 280,000 foreign affiliates had sales estimated to be $US7 trillion, a value greater than that of world trade.[76] The output (gross product) of foreign affiliates nearly tripled between 1982 and 1994, but the percentage of world output increased from 5 per cent in 1982 to only 6 per cent in 1994. Global FDI stock increased four times during the same period and its percentage of world product doubled - from 4.5 per cent to 9 per cent. In 1996, the value of FDI stock was $US3.2 trillion, compared to $US2 trillion in 1993 and $US1 trillion in 1987.[77] In recent years it has been merger and acquisitions (M&As) which have driven FDI throughout the world. In 1996, M&As reached a level of $US275 billion out of a total of $US349 billion (79 per cent of total global inflows). Most of this merger and acquisition activity still takes place in the developed world.[78]

Developed countries invested $US295 billion abroad and received $US208 billion, 63 per cent of total inflows in 1996. The US was the largest recipient of FDI (absorbing 25 per cent of total world FDI flows), followed by China, the UK and France. The US was also the largest source of FDI, followed by the UK. Together, these two countries dominate outflows of FDI, accounting for 40 per cent of outflows. Whilst the developed world still dominates outflows and inflows, the developing world's shares of both increased to their highest ever levels in 1996, reaching 37 per cent in 1996, up from 30 per cent in 1995. Developing countries invested $US51 billion abroad and received $US121 billion in 1996, with every developing region increasing its level of inflows. Two-thirds of all developing country inflows were in South, East and South-East Asia. China alone received $US42 billion of FDI in 1996, with the next largest, Singapore, receiving $US9 billion. FDI inflows into the ASEAN countries have

75 UNCTAD, *World Investment Report 1997*, p. 3.
76 Ibid., p. xv-xvi. In the 1994 edition the report stated that there were 37,000 TNCs, with 200,000 affiliates, with sales greater than $US4.8 trillion - a sizeable increase. UNCTAD, *World Investment Report 1994*.
77 UNCTAD, *World Investment Report 1997*, p. xv-xvi.
78 Ibid., p. xvii. See also Marie-France Houde, "Foreign Direct Investment," *OECD Observer*, 176 June/July, 1992, p. 11.

declined over the 1990s.[79] This decline will probably be accentuated by the region's difficulties in 1997 and 1998 and the probable slow pace of economic recovery.

There is considerable debate about the significance and extent of the globalisation of investment, production and companies. UNCTAD, however, argues that the full scope of MNC activity is not captured by FDI data because it often only records "the initial entry of a firm into a foreign location; subsequent expansions by foreign affiliates are often not recorded in new FDI flows."[80] UNCTAD asserts that although the level of international production, "measured in terms of the share of stock of FDI in world GDP," is not unprecedented, "the overall influence of TNC governance is unprecedented." This is due to the increasing number of countries that are both home and host countries and, more importantly, to the extensive domestic activities of the major MNCs: "Combining the domestic activities of TNCs in a particular country with the activities of foreign affiliates, gives an indication of this wider scope of international production."[81] Under this measure as much as one-third of total world output "may now be under the direct governance of TNCs, with the indirect influence being almost certainly much greater."[82] In addition, UNCTAD asserts that economies are no longer linked primarily by markets, but through production and services controlled by TNCs.[83] Inter-firm arrangements, "involving joint ventures, licensing, subcontracting, franchising, marketing, manufacturing, research and development, and exploration agreements," have grown considerably in the 1990s: from 1,760 in 1990 to 4,600 in 1996, generally involve little or no FDI and, therefore, are only partially captured by foreign direct investment figures.[84]

Koechlin, however, argues that although foreign direct investment is important and has been expanding, its significance has been exaggerated. He concludes that: "firms appear to be quite reluctant to abandon the domestic economy for more favourable investment climates abroad."[85] Hirst and Thompson concur and argue that MNCs are still overwhelmingly nationally-based.[86] They measure the extent of the globalisation

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79 Ibid., pp. xx-xxi.
80 UNCTAD, *World Investment Report 1994*, p. 133.
81 Ibid., p. 135.
82 Ibid.
83 Ibid., pp. 131 & 141.
84 UNCTAD, *World Investment Report 1997*, p. 12. See also Cowling and Sugden, *Beyond Capitalism*, p. 35.
85 Koechlin, "The Globalization of Investment," p. 96.
86 Hirst and Thompson, *Globalization in Question*, p. 2. The various editions of UNCTAD's *World Investment Report* support this argument. A distinction is often made in the literature between transnational corporations (TNCs) and multinational corporations (MNCs), with the former generally purported to describe the fact that firms have become global and hence disconnected from particular 'home' country bases. The latter, on the other hand, is purported to signal the continuing connections between firms and countries. See for discussion: Hirst and Thompson, *Globalization in*

of production by analysing company-based data, rather than balance of payments data. The latter traditional method of measuring, they suggest, gives little consideration to the importance of balance of payments flows, relative to the amount of company activity performed domestically. Alternatively, company-based data makes it possible "to see how much MNC activity is conducted on the home territory as compared with abroad."[87] Analysing figures from 1987 and 1992-93 for sales and assets in manufacturing and services industries, they conclude: "The home-oriented nature of MNC activity . . . seems overwhelming. Thus MNCs still rely on their 'home base' as the centre for their economic activities, despite all the speculation about globalization."[88] Emmott argues that MNCs have extended investment mainly into their own regions and that management remains dominated by home country employees. Geography, he argues, is still important for MNCs.[89]

Whilst most studies of foreign investment concentrate on direct investment, this is only one component of total foreign investment which also includes portfolio investment. Foreign portfolio investment grew quickly in the 1970s and 1980s. By the late 1980s, Japan had become the most important portfolio investor accounting for about 50 per cent of the total, much of which was in the US.[90] Bairoch states that for the three year period, 1989 to 1991, direct investment accounted for only 40 per cent of total foreign investment.[91] Whilst FDI increased by 32 times between 1970 and 1997, foreign portfolio investment increased by 200 times: gross flows of FDI between the major industrial countries increased from $US14.45 billion in 1970 to US$448.32 billion in 1997, whilst gross portfolio flows increased from $US5.26 billion in 1970 to $US1,040.19 billion in 1997.[92]

The problem with portfolio investment is that it is generally undertaken for shorter periods of time and large flows (inflows and outflows) can destabilise an economy. When investor sentiment changes suddenly, as it did in Asia in 1997, capital flight can cause severe economic damage, well beyond the original problems that sparked the capital flight in the first place. The crisis in Asia shows that the type of capital flow is important. Countries with a high degree of direct investment, such as China, were less affected by the crisis than countries with high levels of short-term investment and loans,

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Question, pp. 11-12. No such deliberate distinction is made here, although the term MNC is preferred. The term TNC is retained when it is used in quotation.

87 Hirst and Thompson, *Globalization in Question*, p. 77.

88 Ibid., pp. 95 & 98.

89 Bill Emmott, "Multinationals: Everybody's Favorite Monsters," *Economist*, 27 March, 1993, pp. 10-13. There are of course exceptions, especially in the resources industries.

90 All of the above is based on Kenwood and Lougheed, *The Growth of the International Economy*, pp. 250-253.

91 Bairoch, "Globalization Myths and Realities," pp. 180-181.

92 International Monetary Fund, *International Capital Markets: Developments, Prospects and Key Policy Issues*, Washington, September, 1998, pp. 186-187.

such as Indonesia. By January 1998 - the lowest point in the crisis - the Indonesian rupiah had fallen by 81 per cent from its July 1997 level, the Malaysian ringgit by 46 per cent and the Thai baht by 55 per cent. Between October and December 1997, the Korean won depreciated by 55 per cent. The IMF reports that "private capital flows to the four Asian emerging markets in crisis declined by almost $US100 billion in 1997, with the bulk of the reduction taking place during the last quarter."[93]

Australia

Australia has always been reliant on foreign sources of capital. The development of the Australian economy through industry and infrastructure development in the nineteenth century was especially reliant on British capital, which was generally gained at a lower rate of interest than the small amounts of capital available domestically. Net capital imports as a percentage of gross domestic capital formation averaged 56.7 per cent in the period 1861-65 and reached 51.7 per cent between 1886-90, after falling to 4.4 per cent between 1871-75. By 1890, 40 per cent of export earnings was needed to service the debt to Britain and, soon after, British capital pulled out of Australia after the British merchant bank, Barings, went close to bankruptcy because of its exposure to another emerging market of the time - Argentina. The retreat of foreign capital substantially reinforced domestic economic problems, which together led to a severe depression.[94] British capital in Australia continued to drain out during the economic upturn in the first decade of the twentieth century, returned during and after World War I in the form of debt, and dried up once again in the decade preceding World War II.[95]

During the 1950s and 1960s, about 10 per cent of Australian capital expenditure was funded abroad, declining to 3 per cent in the early 1970s, rising to 10 per cent in the late 1970s, and accelerating over the 1980s to reach 25.8 per cent by 1985-86 (averaging 18.1 per cent over the 1980s).[96] Before World War II, foreign borrowing had been undertaken mostly by the public sector (about four-fifths), but after the war the private sector took over. The form of foreign investment also changed. Before the war, public borrowing was predominantly in the form of fixed interest securities, whilst in the post-war period, private capital inflow increasingly took the form of direct investment in companies.[97]

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93 Ibid., pp. 2-3.
94 Dyster and Meredith, *Australia in the International Economy*, pp. 34 & 41.
95 Ibid., pp. 118 & 146.
96 E. A. Boehm, *Twentieth Century Economic Development in Australia*, Third Edition, Melbourne, Longman Cheshire, 1993, p. 157.
97 Ibid., pp. 158-159.

The sources and destination of foreign direct investment in and out of Australia changed considerably over the post-war period. In 1948, the UK accounted for 95 per cent of FDI in Australia. By 1995, the UK's share had declined to 24 per cent, slightly less than the US with 26 per cent, and Japan with 15 per cent. In 1996, direct investment accounted for 61.4 per cent of the foreign proportion of equity investment and 18.5 per cent of total Australian equity on issue and portfolio investment accounted for 38.6 per cent of foreign equity and 11.6 per cent of total Australian equity.[98] In 1996, of all foreign equity investment (portfolio and direct), the UK owned 32.8 per cent (9.9 per cent of total equity investment), the US 31.8 per cent (9.6 per cent of total), followed by Japan with 7.2 per cent (2.2 per cent of total).

In the 1980s, considerable liberalisation of investment and financial regulations contributed to a large increase in foreign debt. Increased access to international capital markets led many Australian companies to shift to debt financing. As Table 7 indicates, in 1980-81, 'net equity and other investment' was almost three times larger than 'net foreign debt', but by the mid-1980s the situation had reversed and net foreign debt was four times larger by 1992-93.

Table 7: Australian Net Foreign Liabilities as a Percentage of GDP

Year	Net Foreign Debt % of GDP	Net Equity and Other Investment % of GDP
1980-81	6.1	17.2
1982-83	13.6	14.5
1985-86	31.4	9.1
1988-89	34.6	10.3
1992-93	41.8	11.6
1994-95	39.7	17.3
1995-96	38.4	20.1

Source ABS, *1995-96 Balance of Payments and International Investment Position*, Commonwealth of Australia, 1997, p. 83.

High levels of foreign debt are not a new phenomenon for Australia, although they are associated with particularly bleak periods of its economic history. Before the 1980s, the highest debt levels were recorded during the depressions of the 1890s (34.1 per cent of GDP) and 1930s (38.8 per cent of GDP).[99] Foreign liabilities built up in more prosperous times have often exacerbated the severity of subsequent downturns. The level of foreign debt reached a peak in 1993 (41.8 per cent of GDP) and has since subsided slightly.

98 Australian Bureau of Statistics, *International Investment Position*, March Quarter 1997, p. 10.
99 Boehm, *Twentieth Century Economic Development in Australia*, p. 172.

After falling significantly by the mid-1980s, net equity and other investment had more than doubled to 20.1 per cent of GDP by 1996. In 1995, out of a total foreign direct investment inflow into Australia of $US13.1 billion, $US10 billion was accounted for by M&As.[100] Such trends indicate that MNCs generally prefer to take over established Australian companies with strong actual or potential market shares. Fagan and Webber argue that: "despite the record levels of capital inflow after 1980, therefore, only a small proportion found its way into new mining or manufacturing ventures in sharp contrast to the period of the long boom."[101]

Australian investment abroad has increased substantially since the early 1980s.[102] As Table 6 showed, the stock of Australian outward FDI as a percentage of GDP increased from 1.5 per cent in 1980 to 11.9 per cent in 1995. In 1987-88, outward FDI flows were greater than inward flows, and although this was an unusual occurrence, the ratio of outward to inward FDI rose from 17 per cent in 1980 to 39 per cent in 1995. When considering outward investment from Australia, the focus is usually on FDI, but it is also necessary to take into account the level of portfolio and other (lending) investment. Over the period 1989-90 to 1993-94, of total investment abroad, FDI accounted for 39.2 per cent and portfolio and other investment for 60.8 per cent.[103] FDI from Australia went predominantly to the UK with 38 per cent, followed by the US with 25 per cent and New Zealand with 16 per cent. Australian investment in East and South East Asia has significantly declined since 1980: ASEAN and Hong Kong took only 7 per cent of Australian outward FDI in 1995, compared with 46 per cent in 1980.[104] The overall increase in Australian investment abroad, albeit from a low base, is a significant development, reflecting a new outward orientation of Australian companies.

One of the most important consequences of the increase in foreign capital involvement in Australia, whether through FDI, portfolio investment or debt, has been the rising amount of income (profits, dividends and interest) payable abroad. Debt service and the payments of profits and dividends overseas are the major components of the current account deficit. It is often argued that Australia cannot afford to restrict any foreign investment because of the need to fund the current account deficit, which is often seen as an example of Australia "living beyond its means."[105] But other economic analysts have pointed out that capital inflows can also exacerbate the deficit:

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100 Fred Brenchley, "Aust FDI Booms to Outstrip Competitors," *Australian Financial Review*, 11 June 1996, p. 18.
101 Fagan and Webber, *Global Restructuring*, p. 61.
102 Bureau of Industry Economics, *Australian Investment Abroad: A Statistical Overview*, Canberra, AGPS, 1995, pp. 21-23.
103 Ibid., p. 29.
104 UNCTAD, *World Investment Report 1997*, pp. 49-50.
105 See for example Stephen Ellis, "Mixed Messages on Foreign Investment," *Australian Financial Review*, 28 December, 1995, p. 9.

> Whereas in the past policy-makers could attempt to frame their policies with a view to 'targeting' the current account, the amount of capital inflow required to fund a current account deficit being determined residually, under the present conditions of financial openness it is not at all clear which way the causation runs; . . . it is entirely possible for the capital account balance to 'drive' the deficit on current transactions.[106]

Although the reliance on foreign debt and investment has remained high, the percentage of export income needed to service foreign liabilities was reduced from its high point in 1989 of 26.4 per cent to 19.7 per cent in 1996 (it had been 10.9 per cent in 1976 and 15.2 per cent in 1984).[107] Australia's ability to service its debt is dependent on the price of commodities and the level of interest and exchange rates.

High levels of foreign investment and borrowing mean that Australia is vulnerable to changes in international investor sentiment. High levels of capital inflow have also often led to an overvalued exchange rate at times when the tradeable sector could have benefited from a lower currency value.[108] Also particularly important for the current account deficit problem during the 1980s was the fact that much of the improvement in Australia's outward investment was funded by foreign debt.[109] Increased foreign investment can augment national income and help to increase exports, but unrestricted access to foreign debt markets to fund speculative investment, and mergers and acquisitions does not necessarily add to an economy's productive capacity. Outward investment and increasing debt levels were used by some firms in the 1980s as a protection against takeovers. The resulting debt-servicing burdens put pressures on firms to restructure "to reduce costs, maximise local market share, and secure cash flows."[110] The result has not always been beneficial for domestic production as it "sometimes led to selling-off or closing down corporate divisions in Australia not compatible with the overall financial strategy."[111] Such machinations illustrate the increasingly important role of short-term financial activity in the restructuring process in Australia.

A Continuing Role for the State?

Despite the substantial increases, assertions of an unprecedented globalisation of production through FDI in recent years still appear to be overstated. States remain

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106 INDECS, *State of Play 7*, Sydney, Allen & Unwin, 1992, p. 97. See also Roy E. Allen, *Financial Crises and Recession in the Global Economy*, Aldershot, Edward Elgar, 1994, pp. 26 & 38.

107 Australian Bureau of Statistics, *1995-96 Balance of Payments and International Investment Position*, Commonwealth of Australia, 1997, p. 82.

108 Alan L. Lougheed, *Australia and the World Economy*, Melbourne, McPhee Gribble/Penguin, 1988, p. 57.

109 Michele Bullock, Stephen Grenville and Andrew Pease, "Capital Inflows," in *The Regulation of Capital Inflow: Proceedings of an EPAC Seminar held in Canberra on 16 July 1991*, Canberra, AGPS, 1992.

110 Fagan and Webber, *Global Restructuring*, p. 69.

111 Ibid.

integral to the process of production and shifts in domestic political sentiment will continue to shape the strategies of firms. As with trade, the growth of FDI has been reinforced, if not driven, by the increased receptivity to and active pursuit of foreign investment by governments in both developed and developing countries. States have encouraged and discouraged foreign investment throughout the twentieth century and state and societal attitudes to foreign investment have had an important bearing on the pace and intensity of the globalisation process. Rejected by many governments in the 1960s and 1970s, MNCs and foreign investment have increasingly come to be seen as the salvation of economies large and small, developed and developing. During the 1980s, governments of both the right and left abandoned their suspicions and liberalised foreign investment regulations. Foreign investment liberalisation has continued through the 1990s: between 1991 and 1996, of 599 changes to regulations, 95 per cent involved liberalisation. According to UNCTAD, unilateral liberalisation has been accompanied by over 900 bilateral investment treaties, "of which 60 per cent have been concluded since 1990."[112]

The OECD and the WTO have expended considerable effort in attempting to institutionalise a liberal international investment regime.[113] The OECD developed the Code of Liberalisation of Capital Movements,[114] but more recent efforts to construct a comprehensive multilateral agreement on investment for the developed countries have faltered due to a widespread popular backlash and the attempt by states to codify multiple exemptions.[115] Despite the failure to institutionalise an international investment regime, most developed countries and a few developing countries have encouraged outward investment to improve the market opportunities and competitiveness of their firms. Restrictions on outward investment are seen to disadvantage national firms, impeding their ability to take advantage of economic globalisation. Indeed, governments have increasingly encouraged domestic firms to go global, even if this means considerable investment heads out of the country. Efforts to

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112 UNCTAD, *World Investment Report 1997*, p. xviii.

113 WTO (GATT) measures relating to investment include the General Agreement on Trade in Services, Agreement on Trade-Related Aspects of Intellectual Property Rights, Agreement on Trade-Related Investment Measures, Agreement on Subsidies and Countervailing Measures, Plurilateral Agreement on Government Procurement. All entail considerable restrictions on domestic policy discretion in relation to trade and foreign investment. The more extensive dispute resolution mechanisms of the WTO gives these measures an additional salience for policy, although there are still many ways that policy makers can get around restrictions. Bias towards national economic actors and subsidies to attract investment remain prevalent in all countries. World Trade Organization, *Annual Report 1996*, Geneva, 1996, pp. 69-73.

114 Enery Quinones Lellouche, "How OECD Governments Co-operate on Investment Issues," *OECD Observer*, 176, June/July, 1992, p. 10.

115 See for example Fred Brenchley, "OECD Puts MAI on Backburner," *Australian Financial Review*, 30 April, 1998, p. 16; Sheryle Bagwell, "Political Mood May Halt MAI as France Pulls Out," *Australian Financial Review*, 16 October, 1998, p. 25; Geoffrey Barker, "Multilateral Investment Pact 'On Ice'," *Australian Financial Review*, 3 November, 1998, p. 4.

expand outward foreign investment have reinforced the liberalisation process as states have liberalised inward regulations to avoid retaliatory restrictions.[116] As more and more countries have liberalised their investment regimes and acted to increase advantages for MNCs, pressure has been put on other countries to do the same.[117]

Given that demand remains as the primary motive for foreign investment, the scope for Australian governments to bargain with foreign investors is restricted by Australia's relatively small market.[118] The abandonment of trade protection - the post-war basis for much of FDI in Australia - has meant that MNCs can more easily access the Australian market by imports. Australia, however, also has many advantages as an investment location: similar culture, language, lifestyle, and institutions to many of the major investor countries, a highly educated workforce, extensive public infrastructure and political stability. Proximity to Asian markets is an advantage for Australia as a location for FDI, although the Asian financial crisis has made the future less certain. Whilst the crisis has helped to reinforce Australia's attractiveness as a regional headquarters and general location for investment, financial instability and the economic downturn have reduced the amount of investment flowing into the region.

Measuring Financial Globalisation

Notwithstanding the enormous growth in speculation over the past twenty years or so, developments in international financial markets are also not wholly unprecedented. At the beginning of the twentieth century financial markets were integrated and, as Woodall notes, "under the gold standard, international capital flows dominated economies." As she points out, in relative terms "net capital flows across borders were much bigger than they are now."[119] International bond markets were particularly global in the early part of the twentieth century, with Moody's rating bonds for American investors issued by 50 governments in 1920, a level reached again only recently.[120] Before World War I, foreign securities accounted for 59 per cent of all securities traded in London, 53 per cent in France and even higher levels in some of the smaller countries of Europe.[121]

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116 Houde, "Foreign Direct Investment," p. 9.
117 Ibid., p. 11.
118 Koechlin, "The Globalization of Investment," p. 99; Bureau of Industry Economics, *Multinationals and Governments: Issues and Implications for Australia*, Canberra, AGPS, 1993, p. 116.
119 Pam Woodall, "Who's in the Driving Seat? A Survey of the World Economy," *Economist*, 7 October, 1995, p. 5.
120 Ibid.
121 UNCTAD, *World Investment Report 1994*, p. 121.

Undoubtedly, there has been a significant re-globalisation of finance over the last thirty years. From the early 1970s, the capital controls built up during the 1930s and legitimised by the post-war Bretton Woods agreement, succumbed to a combination of financial pressures and policy reversals throughout the developed world.[122] Akyüz argues that the breakdown of the Bretton Woods system made states more willing to embrace liberalisation.[123] Support also came from economists who argued that floating exchange rates would lead to increased policy autonomy and economic efficiency as financial capital was allocated by market forces. Financial liberalisation accelerated the increase in capital mobility, making restrictive regulations, for those attempting to maintain them, increasingly difficult.

The foreign exchange market is the most global of markets and has continually grown in size and importance since the demise of Bretton Woods. In the early 1970s, between $US10-20 billion a day was traded on the world's foreign exchange markets, increasing to $US60 billion a day in 1983. As Table 8 reveals, only six years later in 1989, daily trade had expanded to $US590 billion. Currency trading has continued to expand over the 1990s, increasing to $US880 billion a day by 1992 and $US1,190 billion by 1995.[124] In its April 1998 survey, the Bank for International Settlements (BIS) reported that daily turnover had reached $US1,490 billion a day.[125]

Table 8: Global Daily Foreign Exchange Trading

Item	1989	1992	1995
	daily averages in billions of US dollars (percentage of total in brackets)		
Spot Transactions	350 (59)	400 (49)	520 (44)
Outright Forwards	28 (5)	64 (8)	101 (8)
Foreign Exchange Swaps	212 (36)	356 (43)	569 (48)
Estimated Total Global Turnover	590	820	1190

Source: BIS , *Annual Report 1996*, Basle, 1996, p. 96.

122 See Eric Helleiner, "From Bretton Woods to Global Finance: A World Turned Upside Down" in Richard Stubbs and Geoffrey R. D. Underhill (eds), *Political Economy and the Changing Global Order*, London, Macmillan, 1994, p. 165. See also Eric Helleiner, "When Finance Was the Servant: International Capital Movements in the Bretton Woods Order" in Philip G. Cerny (ed), *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era*, Aldershot, Edward Elgar, 1993.

123 Yilmaz Akyüz, "Taming International Finance" in Johnathon Michie and John Grieve Smith (eds), *Managing the Global Economy*, Oxford, Oxford University Press, 1995, p. 64.

124 Bank for International Settlements, *Annual Report 1996*, Basle, 1996, p. 95.

125 Sheryle Bagwell, "Average Daily Forex Turnover $US1,490 bn," *Australian Financial Review*, 19 October, 1998, p. 14.

The growth of official reserves held by central banks has not matched the growth in foreign exchange transactions. In the early 1970s, official reserves of industrial countries were eight times daily transactions, but by the mid-1990s reserves were only one half of daily transactions.[126] Foreign exchange has become increasingly disconnected from trade and investment as the proportion of speculative financial transactions has increased. In 1983 the ratio of foreign exchange transactions to trade flows was 10 to 1, but by 1992 it had increased to 60 to 1.[127]

Financial liberalisation undertaken by the Hawke Government during its early years of office broke down the regulatory boundaries separating the Australian financial system from the outside world and unleashed a period of substantial financial expansion in Australia. As will be discussed in chapter 6, the float of the dollar, the removal of exchange controls and the liberalisation of the domestic financial sector revolutionised Australia's financial system and was the first and most fundamental step in the opening up of the Australian economy in the 1980s. The Australian dollar became a heavily traded currency, Australian companies increasingly accessed international debt markets, foreign banks entered Australia and the financial sector grew massively in size and importance. Australia ranks as the fourteenth largest country in terms of GDP, but ranks ninth in terms of turnover in foreign exchange markets and sixth in exchange-traded interest rate futures and options contracts.[128]

On foreign exchange markets in Australia, average daily turnover in all currencies increased from $A5 billion in 1985 to $A44 billion in 1990, which represented an annual average increase of 50 per cent over the five year period. After a pause between 1990 and 1992, turnover once again expanded, reaching $A50 billion a day in 1995. In 1995, daily turnover in the Australia dollar in Australia was $A24 billion, with other currencies accounting for $A26 billion. The Australian dollar was the eighth most heavily traded currency in the world in 1995, with only 40 per cent of trade conducted in Australia. The Reserve argues that this is because of the "growing interest by international fund managers in holding Australian dollar investments."[129] As the Reserve Bank reports: "In recent years, Australia has become increasingly integrated into the global foreign exchange market, helping to bridge the time gap between the close of the New York market and the opening of the major Asian markets of Tokyo,

126 Economist, "Forex Explosion Foils Defences," *Australian*, 26 September, 1995, p. 57. Official reserves for the *whole* world were US$1.5 trillion. Bank for International Settlements, *Annual Report 1997*, Basle, 1997, p. 83. The introduction of the Euro and the accompanying removal of foreign exchange between users will have a large effect on foreign exchange markets, with the BIS estimating that it will reduce transactions by about 10 per cent. Ibid., p. 89.

127 Woodall, "Who's in the Driving Seat?," p. 10.

128 Reserve Bank of Australia, "Australian Financial Markets," *Bulletin*, May, 1996, p. 1.

129 Ibid., p. 4. Trading in the US dollar (84 per cent), German mark (90 per cent) and Japanese Yen (65 per cent) occurs mostly outside of their respective countries.

Hong Kong and Singapore."[130] The level of offshore trade in the dollar and the fact that it is often used as a tool of speculation means that its value and degree of volatility is often heavily influenced by events and actions that are unrelated to Australia. The dramatic decline in the value of the dollar in 1998, for example, whilst related to the falling prices for commodities, had much to do with the speculative activity of hedge funds.[131] Trading on foreign exchange markets has shifted from spot transactions (those where settlement occurs within two days) to swaps (those where currencies are exchanged and reversed at a later date).[132]

International lending has accelerated since the 1960s. As a share of world output, net international bank loans increased from 0.7 per cent in 1964 to 8.0 per cent in 1980 and 16.3 per cent in 1991.[133] From 1972 to 1992, international banking grew at about 20 per cent per annum and increased by $US7 trillion. Over the same period, world trade increased by $US3 trillion. Despite the growth of securitisation, the BIS reports that: "commercial banks have generally been able to retain their dominant position at the core of the financial system by more active asset and liability management by offering new off-balance sheet services and by acquiring securities houses and investment funds."[134] The liberalisation of capital controls in Australia led to a significant increase in the level of involvement by Australian companies in international capital markets. Capital raisings increasingly took the form of bonds, rather than bank loans and, by the mid-1990s, bonds completely dominated capital raisings.[135] As Table 7 indicated, foreign liabilities are now dominated by debt rather than investment. The increased access to international financial markets, as well as the entry of foreign banks, put enormous pressure on the Australian banks who lowered their lending standards in the late 1980s in an effort to maintain and increase market share.

The continuing growth of institutional investors - pension funds, insurance companies and mutual funds - has provided an important spur to financial globalisation.[136] Such institutions have progressively expanded their involvement in foreign financial markets as states have loosened restrictions. In 1980, institutional investors had less than 5 per cent of their assets invested in foreign securities, but by the mid 1990s this figure had

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130 Ibid., p. 2.
131 According to a local currency trader: "Without the short selling by the hedge funds we would never have seen the $A at US 55¢." Andrew Main, "Long-Range Potshots at the Dollar," *Australian Financial Review*, 26-27 September, 1998, p. 8.
132 Foreign exchange derivative trading is dominated by swaps because "there is no futures market in Australian dollars." Reserve Bank of Australia, "Australian Financial Markets," p. 2.
133 UNCTAD, *World Investment Report 1994*, p. 128.
134 Bank for International Settlements, *Annual Report 1997*, p. 119.
135 Dick Bryan and Michael Rafferty, *The Global Economy in Australia: Global Integration and National Economic Policy*, Sydney, Allen & Unwin, 1999, pp. 185-186.
136 Woodall, "Who's in the Driving Seat?," p. 9.

grown to about 20 per cent.[137] The growth rate of institutional assets averaged around 13 per cent between 1990 and 1995. The shift to compulsory pensions (superannuation in Australia) and the desire of populations to access higher-return investment possibilities have increased the attractiveness of institutional investors.[138]

Since the end of Bretton Woods there has been spectacular growth in financial derivative products and markets. Derivatives are financial instruments that allow parties to offset or exchange risk and are based on underlying entities such as equities, bonds, currencies, interest rates, stock indexes or various combinations of these and include futures, swaps, options, swaptions, warrants and many others. Derivatives have become instruments of speculation, extending well beyond their ostensible role of offsetting financial risk. Indeed, the increased use of derivatives as speculative instruments has exacerbated volatility. As Thrift and Leyshon contend: "the systematic assessment of risk allows new forms of risk to be generated and promotes volatility in time and space, which is now both necessary in order to make money, and itself creates more risks."[139] Table 9 shows that whilst derivative markets have grown considerably over the 1990s, growth has mainly come in the over-the-counter market (tailor-made derivative transactions) with exchange-traded derivative markets stagnating.

Table 9: Markets for Selected Financial Derivative Instruments

Instruments	Notional amounts outstanding at end-year					
	1991	1992	1993	1994	1995	1996
	in billions of US dollars					
Exchange-traded instruments	3519	4634	7771	8863	9188	9885
Interest rate futures	2157	2913	4959	5778	5863	5931
Interest rate options[1]	1073	1385	2362	2624	2742	3278
Currency futures	18	27	35	40	38	50
Currency options[1]	63	71	76	56	43	47
Stock market index futures	76	80	110	127	172	199
Stock market index options[1]	133	159	230	238	329	380
Over-the-counter instruments	4449	5346	8475	11303	17713	24292
Interest rate swaps	3065	3851	6177	8816	12811	...
Currency swaps	807	860	899	915	1197	...
Other swap-related derivatives[2]	577	635	1398	1573	3705	...

[1] Calls and puts. [2] Caps, collars, floors and swaptions.
Source: BIS, *Annual Report*, Basle, 1997, p. 131.

137 International Monetary Fund, *International Capital Markets*.

138 Ibid. See also Barrie Dunstan, "From Here to Eternity: Superannuation Special Report," *Australian Financial Review*, 13-14 June, 1998, pp. 31-38.

139 Nigel Thrift and Andrew Leyshon, "A Phantom State? The De-traditionalization of Money, the International Finance System and International Financial Centres," *Political Geography*, 13(4), July, 1994, p. 303.

The most important development in international financial markets in recent years, therefore, has been the enormous growth in speculation which has increased instability in the world political economy. As Akyüz argues:

> [T]he main activity of financial markets has become not so much to intermediate between ultimate savers and investors, allocate resources on the basis of asset valuations reflecting long-term risks and profits, and facilitate transactions and payments needed for investment, trade and production, but rather to create short-term opportunities for speculation in volatile misaligned asset valuations. Speculation is not, of course, a new phenomenon; but the increased internationalization of finance has enhanced the scope for propagation of disturbances from one market to another within, as well as across, borders.[140]

In recent years, the activities of 'hedge funds' - financial market players that use 'leverage' to increase their funds to take speculative positions in financial markets - have attracted increasing attention. The sheer weight of the financial positions taken by hedge funds has the power to move markets and generate huge profits, but also provides the potential for huge losses if speculative gambles go awry. Large uncovered speculative positions in even relatively insignificant currencies or securities could lead to a systemic crisis in the international financial system. The 'short' selling of currencies - the selling of currencies not yet owned in the hope that the price will fall by the time the contract has to be delivered - often leads to self-fulfilling declines in their value. Currency price changes often have very little to do with economic fundamentals such as inflation, interest rates and purchasing power parity.[141]

Instability in capital and foreign exchange markets can create difficulties for both governments and firms alike. Given the high levels of volatility in financial markets, managing exchange rate and interest rate risk has become essential for business planning purposes, as shifts in financial values can seriously damage a firm's profitability. Not covering currency transactions in forward markets can involve significant risks and hedging strategies have become an essential tool for non-financial businesses in their attempts to offset the deleterious effects of financial volatility. Forward-looking markets, however, rarely extend longer than a year and as a BIS study concluded: "derivatives may delay the economic impact of interest rate rises for the length of the contracts, but they cannot eliminate it. Borrowers cannot hedge forever, so eventually spending decisions will be affected by higher market interest rates."[142] Some analysts argue that the deepening of derivative markets and the extension of the

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140 Yilmaz Akyüz, "Taming International Finance," p. 57.

141 Tim Fishman, "Our Currency in Cyberspace: Trading the American Dollar Against the American Government," *Harper's Magazine*, December, 1994, p. 58. See also David Gruen, "Financial Market Volatility and the World-Wide Fall in Inflation," *Research Discussion Paper*, Economic Research Department, Reserve Bank of Australia, December 1995.

142 Woodall, "Who's In the Driving Seat?," p. 12.

length of contracts would help to lessen the extent of interest and exchange rate risk.[143] However, given that volatility may be exacerbated by foreign exchange and derivative speculation, it is questionable whether their expanded and possibly subsidised use would lead to a decline in volatility. Governments, therefore, have been increasingly pressured to avoid policies that cause negative financial market reactions and exacerbate volatility because of the effects on business confidence and the costs of doing business. Rising interest rates will deter investment and excessive exchange volatility may discourage exporters, especially smaller companies and those without financial expertise. Even though expansionary policies may be favourable for many businesses, adverse reactions in the financial markets can severely negate the benefits, especially in relation to the costs of borrowing.

Financial globalisation has profoundly affected macroeconomic policy. The capital mobility hypothesis, following work done in the 1960s by Robert Mundell and J. Marcus Fleming, contends that governments can either pursue exchange rate stability or control interest rates, but they cannot do both.[144] With the breakdown of the Bretton Woods exchange rate system, it was argued that floating exchange rates would lead to more stable foreign exchange markets, reduce payments imbalances and allow a greater level of monetary policy autonomy. Woodall argues that countries with flexible exchange rates have greater domestic monetary autonomy than was possible during the Bretton Woods period.[145] But flexible exchange rates provide monetary autonomy only if a country is willing to lose control of its exchange rate.[146]

Capital mobility, together with reduced barriers to trade, has also affected fiscal policy. Expansionary fiscal policy is dissipated through its effect on interest rates and on demand for imports if expansionary policies are not matched by trading partners. Flows of financial capital in response to government policies have provided disincentives for unilateral expansionary policies as financial market actors often react unfavourably to fiscal expansion, even in times of low growth or recession. Capital flight can drive down exchange rates, increasing the price of foreign denominated debt and imports and adding to inflationary pressures. Financial market actors are always suspicious of deficit-financed expansion to reduce unemployment and perceptions that

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143 Allen, *Financial Crises and Recession in the Global Economy*, p. 347.

144 David Andrews, "Capital Mobility and State Autonomy: Toward a Structural Theory of International Monetary Relations," *International Studies Quarterly*, 38(2), 1994, p. 203.

145 Woodall, "Who's In the Driving Seat?," p. 11. See also John Pitchford, "The Exchange Rate, Monetary Policy and the Economy," *Economic Papers*, 13(1), 1994, who argues a similar case for Australia; and Francis G. Castles, "On the Credulity of Capital: Or Why Globalisation Does Not Prevent Variation in Domestic Policy-Making," *Australian Quarterly*, 68(2), 1996.

146 Michael C. Webb, "International Economic Structures, Government Interests, and International Coordination of Macroeconomic Adjustment Policies," *International Organization*, 45(3), Summer, 1991, p. 318.

increased levels of debt to GDP are unsustainable will lead to falling bond prices and rising interest rates.[147] Financial market actors are not willing to wait to see if expansionary policies will cause inflation, even if they are not deficit-financed. Conventional wisdom and the self-fulfilling tendencies of financial markets mean that what matters is the widespread belief that they will increase inflation, backed by the power to give substance to such beliefs. If the reactions of financial market actors to expansionary policies spark capital outflow from a country, then the economic benefits of expansion may be more than counteracted. Together with domestic difficulties in increasing taxation, financial market pressures have provided a strong disincentive for increasing government spending, even on industrial development policies and improved infrastructure. Garrett argues that "government spending can increase productivity and competitiveness by generating public goods that are undersupplied by the market," an argument that has been given theoretical credence through 'new growth theory'.[148] Theoretical and practical support for such ideas might lead, according to Garrett, to financial markets "being more accepting of government spending" in the future.[149]

The difficulty of deficit-financing represents, on a smaller scale, the situation facing social democratic governments with redistributive economic programmes. If the impending election of a government advocating a redistributionist agenda sparks capital outflow, leading to a loss of business confidence and economic troubles even before the programme is enacted, then it becomes difficult to determine what is behind the economic damage.[150] If expectations about policy directions push markets downwards, participants have to decide whether or not they can resist these pressures, regardless of existing 'fundamentals'. Financial markets factor in future possibilities and if enough participants start selling, driving down prices, then the result can be a self-fulfilling prophecy, wherein the effect of left-wing governments is destabilising for an economy because powerful financial market actors believe that they have deleterious consequences for them. Keohane and Milner argue that financial suspicion of Leftist governments acts to limit their ability to extend borrowing to a greater extent than governments of the Right.[151] This explains why social democratic governments have often been so keen to court and give advantage to financial sector actors. Many economic policy-makers and commentators see the discipline of a globalised financial

147 Andrew Glyn, "Social Democracy and Full Employment," *New Left Review*, 211, 1995, p. 39.
148 For an analysis of new growth theory see Bureau of Industry Economics, *Recent Developments in the Theory of Economic Growth: Policy Implications*, Canberra, AGPS, 1992.
149 Garrett, "Capital Mobility, Trade, and the Domestic Politics of Economic Policy," pp. 669 & 683.
150 Fred Block, *Revising State Theory: Essays in Politics and Postindustrialism*, Philadelphia, Temple University Press, 1987, pp. 179-184.
151 Helen V. Milner and Robert O. Keohane, "Internationalization and Domestic Politics: An Introduction" in Robert O. Keohane and Helen V. Milner (eds), *Internationalization and Domestic Politics*, New York, Cambridge University Press, 1996, p. 18.

system as a positive development, forcing governments to abandon 'unsustainable' policies, especially in the area of social welfare.[152] Supporters of financial discipline even see irrational financial reactions as working to support appropriate policy choices.[153] Social democratic governments have generally faced higher interest rate premiums as barriers to capital flows have been reduced. These premiums cause significant problems for both government and business, increasing the costs of public and private debt.[154] Garrett argues that although these interest rate premiums were not large enough at the beginning of the 1990s to prompt social democratic parties "to abandon fiscal activism," the possibility remains that "the integration of financial markets may yet be the death knell of social democracy."[155]

Unequivocal assertions about the increasing disciplinary effects of international finance on states are complicated, however, by the fact that debt as a percentage of GDP increased for the OECD as a whole, from 15 per cent in 1974 to 40 per cent in 1994, with many countries continuing to run large deficits.[156] Garrett argues that hitherto the limitations imposed on deficit spending by increased capital mobility have been exaggerated: "rather than being constrained by increasing trade and capital mobility, the relationship between left-labor power and fiscal expansions has strengthened with greater internationalization."[157] Small increases in interest rates will attract overseas lenders whereas, previously, governments would have to increase interest rates significantly to get domestic borrowers to lend money. Eventually, however, governments must reduce their borrowings or face the possibility that financial markets will "suddenly decide enough is enough and turn into disciplinarians, demanding a fatter premium to compensate for the risk of default or higher inflation."[158] Increased discipline on policy, therefore, has often come about because of an initial lack of discipline in the level of state borrowing. As Andrews and Willett argue: "although high capital mobility generally constrains monetary policies, in the short-run it can sometimes ease the financing of fiscal deficits."[159] Conceptions of policy autonomy have shifted in response to the changing financial environment, but rather than being outrightly constrained by financial globalisation, governments continue to make trade-offs between financial stability and domestic priorities.

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152 See for example Economist, "Leaders Should be Used to Economic Understeer," *Australian*, 22 June, 1994, p. 11.
153 See for example Editorial, *Australian Financial Review*, 29 April, 1994, p. 20.
154 Garrett, "Capital Mobility, Trade, and the Domestic Politics of Economic Policy," pp. 659-660.
155 Ibid., pp. 682-683.
156 Woodall, "Who's in the Driving Seat?," p. 15.
157 Garrett, "Capital Mobility, Trade, and the Domestic Politics of Economic Policy," p. 682.
158 Woodall, "Who's In the Driving Seat?," p. 16.
159 David M. Andrews and Thomas D. Willett, "Financial Interdependence and the State: International Monetary Relations at Century's End," *International Organization*, 51(3), Summer, 1997, p. 491.

Despite the significant globalisation of finance over the past twenty-five years and the massive increase in speculative flows, it is still necessary, as Wade argues, to differentiate between different financial markets because there remains a limited number of truly global financial products, with equity markets still particularly nationally-focused. More important, perhaps, is the fact that "regulations, rules and taxation governing finance are still nationally-based and the differences in the cost of capital remain large."[160] As Verdier points out, with widespread assertions that the continuing globalisation of finance is inevitable and irreversible it is important to remember that:

> It is not the first time that cross-border capital flows grow out of ordinary proportions. A century ago during the period of the gold standard, the world experienced levels of capital internationalization comparable, if not higher, than current ones. Yet hardly any of the most extreme predictions associated with today's occurrences were realized: internationalization was neither inevitable, uniform, nor notably successful - Britain and France, who embraced internationalization, grew more slowly than Germany and the United States, who accepted lower levels of capital market interdependence. And, of course, internationalization was reversed.[161]

Continuing financial instability or a major financial crisis could lead to a fundamental reassessment by the major states of the benefits of financial liberalisation - a development that would have a profound impact on all aspects of economic globalisation.

Conclusion

From the above discussion on trade, investment and finance, it is evident that economic interconnections between countries increased substantially over the post-war period, particularly from the early 1970s. The setbacks of the interwar years, when many countries embraced autarkic economic policies as a response to economic crisis, meant that much of the post-war expansion of the world economy involved catching up to the level of interconnection achieved before 1914. It took until the 1970s for trade and the 1990s for direct investment to recover to pre-World War I levels. The financial restrictions of the Bretton Woods system hampered the post-war recovery of financial flows, but once this system broke down and countries began to liberalise their financial systems, finance took over as the driving force of economic globalisation.

Despite the intensification of economic globalisation, the above empirical analysis of globalisation reveals that developments in recent years stop, as Hirst and Thompson

160 Wade, "Globalization and Its Limits," pp. 73- 75.
161 Daniel Verdier, "Domestic Responses to Capital Market Internationalization Under the Gold Standard," *International Organization*, 52(1), Winter, 1998, p. 2.

argue, "well short of dissolving *distinct national economies* in the major advanced industrial countries."[162] To place recent trends into perspective, it is important to note that most economic activity still takes place wholly within the boundaries of nation states. As Mann points out: "the national bases of production and trade seem undiminished."[163] With the increasing importance of services in national economies, Krugman argues that there is also a process of "localization" occurring. In cities, Krugman points out, the majority of employment is in the production of "goods and (especially) services that are provided by local workers, to local consumers, for local consumption."[164] Localisation has increased, he argues, because the production of goods has been characterised by incredible growth in productivity, whilst many services are not amenable to such improvements, due to their need to be delivered on a one-to-one basis.[165]

The argument that states and domestic political economies are increasingly irrelevant, therefore, is not borne out by the evidence. States, especially in the developed world, have actively supported the globalisation process and its continuation remains dependent on their continuing support. States continue to be the most important sites of economic regulation. As Sassen notes: "Many of the strategic places where global processes materialize are embedded in national territories and hence fall, at least partly, under various state-centered regulatory umbrellas."[166] All markets require regulations and rules of exchange to ensure their smooth operation and enforcement structures are necessary to provide sanction against those who would step outside of explicitly and implicitly agreed rules of exchange. States, individually and collectively, still retain the power to create regulatory structures within which economic actors must operate and can thus still determine political economic outcomes. As Hirst and Thompson argue:

> Stability in the international economy can only be had if states combine to regulate it and to agree on common objectives and standards of governance. Companies can want free trade and common regimes of trade standards, but they can only have them if states work together to achieve common international regulation.[167]

In sum, the nation state remains the pre-eminent structure in the world political economy and economic globalisation has a long way to go before the nation state is

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162 Hirst and Thompson, *Globalization in Question*, p. 4. Emphasis added. For a similarly sceptical account, see David Gordon, "The Global Economy: New Edifice or Crumbling Foundations," *New Left Review*, 168, 1988.

163 Michael Mann, "As the Twentieth Century Ages," *New Left Review*, 214, 1995, p. 117.

164 Krugman, *Pop Internationalism*, p. 211. Mann also argues that the shift from manufacturing to services is "reinforcing localism." Mann, "As the Twentieth Century Ages," p. 117.

165 Krugman, *Pop Internationalism*, p. 213.

166 Saskia Sassen, "The Spatial Organization of Information Industries: Implications for the Role of the State" in James H. Mittelman (ed), *Globalization: Critical Reflections*, London, Lynne Rienner, 1996, p. 33.

167 Paul Hirst and Grahame Thompson, "Globalization and the Future of the Nation State," *Economy and Society*, 24(3), August, 1995, p. 426.

superseded as a focus for regulating and measuring economic activity. Sovereignty, national boundaries, democratic legitimacy and domestic political struggles still matter and states retain their ability to shape economic processes. Considerable differences remain in the extent to which particular national economies are integrated into the world economy and in the domestic regulatory structures that continue to govern integration and mediate the effects of globalisation. Understanding globalisation and its effects still requires a focus on the state and domestic politics. The nation-state retains its importance as an object of analysis and how states adjust to the pressures of globalisation is still a pertinent question. The next chapter considers in greater detail arguments about the relationship between globalisation, the state and policy autonomy.

Chapter Three

Globalisation, the State and Policy Autonomy

Introduction

> Far from the internal constitution of states and societies being immune, at least until recently, to international phenomena, the international dimension provided the context and formative influence for these states, not only for the majority of the world states that are post-colonial and so shaped by the colonial experience, but equally for European states. The world economy, the Reformation, the values of legitimacy, and above all, the pressures of economic and military competition ensured this.[1]

Just as extensive economic interconnections between countries are a long-standing phenomenon, so is the dilemma facing states in deciding how to adjust to developments in the world political economy. Recent debate about the impact of economic globalisation is only the most recent instalment in a long-running debate about the effect of the outside world on the inner workings of the nation-state.[2] As Evans, Rueschemeyer and Skocpol argue, state "structures, capacities, and policies are always influenced by identifiable aspects of the particular world historical circumstances in which they exist."[3] States, however, have also long been constrained by their ability to raise revenue and maintain stability - societal factors which have shaped their ability to sustain or strengthen their position in the international domain. With the advent of the universal franchise, governments leading state apparatuses have faced the additional constraint of periodic judgement by electorates. The threat of electoral defeat intensified internal constraints on the state's policy autonomy.

Integral to understanding the dynamics of policy change is a consideration of the way states manage the often competing pressures of the internal and external domains.[4] Whilst the globalisation of the world political economy is increasingly seen as an inevitable and irreversible economic development which has weakened the state and colonised the political process, such accounts often downplay the pivotal role of the

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1 Fred Halliday, *Rethinking International Relations*, London, Macmillan, 1994, p. 83.

2 See the excellent reviews of the literature in Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization*, 32(4), August, 1978 and Gabriel A. Almond, "The International-National Connection," *British Journal of Political Science*, 19, 1989.

3 Peter Evans, Dietrich Rueschemeyer and Theda Skocpol, "On the Road Toward a More Adequate Understanding of the State" in Peter Evans, Dietrich Rueschemeyer and Theda Skocpol (eds), *Bringing the State Back In*, Cambridge, Cambridge University Press, 1985, p. 350.

4 Geoffrey R. D. Underhill, "Conceptualising the Changing Global Order" in Geoffrey R. D. Underhill and Richard Stubbs (eds), *Political Economy and the Changing Global Order*, London, Macmillan, 1994. See also Philip G. Cerny, *The Changing Architecture of Politics*, London, Sage, 1990.

state in supporting globalisation and the extent to which globalisation has provided opportunities for policy changes that have reshaped domestic governance. The gradual shift to economic liberal policies since the breakdown of the post-war international economic order and the economic woes of the 1970s and 1980s, needs to be seen as both an economic strategy to reinvigorate economic growth and a political project that has aimed to establish market governance and reshape public expectations about the role of the state. Pressured by both external and internal developments and forces, states have attempted to offset the challenges to external autonomy by shifting adjustment onto domestic society. The economic liberal policy response has involved an attempt to deal with the challenges of globalisation by opening domestic political economies more fully to external developments and forces. Globalisation and support for economic liberalism require a reconceptualisation of ideas about state policy autonomy and capacity, rather than signalling a decline in state power.

This chapter begins by outlining the impact of both internal and external developments on the state and explains the development and breakdown of the post-war economic order in relation to the advanced capitalist democracies. The second section considers arguments about the effect of globalisation on the state and the final section reconsiders the issue of state policy autonomy.

The Janus-Faced State

> Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. Inevitably, society took measures to defend itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way.[5]

> Inside and outside England, from Macaulay to Mises, from Spencer to Sumner, there was not a militant liberal who did not express his conviction that popular democracy was a danger to capitalism.[6]

Thomson argues that "conceptions of the state and sovereignty as institutions that developed to serve societal needs, like economic growth and protection from military attack," find little support in the literature on the formation and consolidation of national states.[7] Rather, these studies reveal that "the state's 'function' was to make

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5 Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Boston, Beacon Press, 1957[1944], pp. 3-4.

6 Ibid., p. 226.

7 Janice Thomson, "State Sovereignty in International Relations: Bridging the Gap Between Theory and Empirical Research," *International Studies Quarterly*, 39(2), 1995, p. 216. See especially Charles Tilly (ed), *The Formation of National States in Western Europe*, Princeton, Princeton University Press, 1975.

war and to build power vis-a-vis other states *and* society"; society was an "adversary" that resisted "state rulers' efforts to extract resources and monopolize political and judicial authority."[8] Because domestic wealth was essential for state security, state actors were pushed into bargaining with the rising capitalist class. After establishing control over territory - effectively dealing with the possibilities of territorial 'exit' - states were faced with another form of exit in the guise of "movable wealth."[9] As Adam Smith encouraged quite some time ago:

> The proprietor of stock is properly a citizen of the world, and is not necessarily attached to any particular country. He would be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assessed to a burdensome tax, and would remove his stock to some other country where he could either carry on his business, or enjoy his fortune more at ease.[10]

Gaining the support or acquiescence of economic actors, Tilly asserts, pushed states to establish "limits to state control, perimeters to state violence, and mechanisms for eliciting the consent of the subject populations."[11] Emerging in Britain, liberalism constituted a doctrine of state limitation that aimed to reduce the despotic powers of states and provide security and advantage for the newly emergent capitalist class. Gradually, new sections of society were incorporated into or, at least, considered by the state in the formulation of policy. In Britain in the nineteenth century, and to a lesser extent in western Europe, the growth of the middle classes - "the bearers of the nascent market economy" - shifted the direction of state policy towards freer trade. The state increasingly acted to "institute and safeguard the self-regulating market."[12] But the enforcement of economic liberalism - the gold standard, free trade, and a competitive labour market - led, Polanyi argued, to the "spontaneous" growth of a "protective counter-movement."[13]

The development of capitalism through industrialisation spurred urbanisation and the growth of a working class which, through growing numerical strength, began to organise and push for improvements to its conditions of work. Together with middle class reformers, the working classes placed pressure on the state for an expansion of political representation. With the gradual extension of the franchise, and as socialist or labour parties became increasingly influential - either pressuring existing governing elites or gaining power themselves - states gradually increased their protective role. Through the development of political parties and electoral competition, states began to

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8 Thomson, "State Sovereignty in International Relations," p. 216.
9 Albert O. Hirschman, "Exit, Voice, and the State," *World Politics*, 31(1), October, 1978, p. 96.
10 Adam Smith, *The Wealth of Nations*, cited in Hirschman, "Exit, Voice, and the State," p. 99.
11 Tilly, cited in G. John Ikenberry, "The State and Strategies of International Adjustment," *World Politics*, 39(1), October, 1986, p. 56.
12 John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization*, 36(2), Spring, 1982, p. 386.
13 Polanyi, *The Great Transformation*, p. 139.

be influenced by people who believed that public intervention should serve wider societal interests and be seen as a powerful agent of social transformation.

State action, however, continued to face the constraints of the world economy and pressures from powerful economic and established societal interests. Hirst and Thompson argue that state "autonomy under the Gold Standard up to the First World War was much less for the advanced economies than it is today."[14] In the late nineteenth century, restricted by financial orthodoxy, states had two major choices when confronted with economic difficulties - increasing trade protection or domestic adjustment to the market. As Kitson and Michie point out: "During the late nineteenth century the cumulative impact of tariff protection as an industrial policy was to provide domestic economies - that did not have recourse to nominal exchange rate realignment - with an alternative tool of external adjustment."[15] Industrialised countries, with the notable exception of Britain, increasingly embraced protectionist barriers under pressure from major economic interests: popular pressures, though increasing, were less important in determining state responses.[16]

The depression of the late nineteenth century damaged the progress of economic liberalism and *laissez faire* capitalism and increased the legitimacy of ideas about economic and societal protection. Aided by the Marxian telos, socialists saw in these developments the seeds of capitalism's destruction and the beginnings of the working class's historic mission to usurp power from the bourgeoisie.[17] Political and economic elites, however, gradually and some more successfully than others, adapted states to changing societal dynamics, making concessions to incorporate the masses. But more important in destroying socialist optimism and strengthening states, was the rise in nationalism as Europe headed towards war.[18] External threats to nation states helped to rally populations and provided existing political elites with a powerful justification to centralise power and suppress opposition.

The attempt to re-impose the Gold Standard and other economic liberal orthodoxies after World War I was, according to Polanyi, a fundamental cause of the economic

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14 Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities of Governance*, Cambridge, Polity Press, 1996, p. 49.

15 Michael Kitson and Jonathon Michie, "Trade and Growth: A Historical Perspective" in Jonathon Michie and John Grieve Smith (eds), *Managing the Global Economy*, Oxford, Oxford University Press, 1995, p. 12.

16 Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises*, Ithaca, Cornell University Press, 1986, ch. 3.

17 Adam Przeworski, *Capitalism and Social Democracy*, Cambridge, Cambridge University Press, 1985, p. 49; Leszek Kolakowski, *Main Currents of Marxism: Volume II: The Golden Age*, Oxford, Clarendon Press, 1978.

18 James Joll, *Europe Since 1870: An International History*, 4th Edition, London, Penguin Books, 1990, pp. 77-78 & 187-189; Robert Gildea, *Barricades and Borders: Europe 1800-1914*, 2nd Edition, Oxford, Oxford University Press, 1996, part III.

disasters and social transformations of the 1930s and the return to World War.[19] By the 1930s, significant social changes had taken place in Europe, North America and Australasia and increasing demands for social protection clashed with state efforts to safeguard the market economy. The initial policy response to the Great Depression by most states was the maintenance or reinforcement of orthodoxy: deflation, reducing the costs of production - especially wages, balanced budgets and the maintenance of the gold standard - all were considered sacrosanct, even by some social democratic parties in office at the time.[20] As the economic crisis continued, states increasingly resorted to 'orthodox' deviations from economic liberalism: industry protection, currency devaluations, abandonment of the gold standard, and increased domestic economic regulation.[21] When even these neo-orthodox solutions failed to solve the crisis, new policy ideas and programmes began to appear. As Gourevitch explains, states, to differing degrees, "experimented with demand stimulus (known after the war as Keynesianism), social welfare systems, extensive regulation of and subsidies for markets, and some degree of public ownership of production."[22] The retreat from economic liberalism in this period was shaped not just by popular demands for social protection, but by powerful economic interests which pushed for increases in trade protection and exchange rate devaluation. The Depression undermined the established economic orthodoxies and led to new possibilities for states to protect populations from the market and the world political economy. Political reactions to economic malaise and social unrest retarded the process of economic integration, revealing the power of political developments to shape the structure of the world political economy.

World War II further strengthened and centralised state power, especially in relation to taxation, and reinforced the policy tendencies emergent in the 1930s by revealing the benefits of state planning and sustained economic demand.[23] The legacy of the depression and war also provided the impetus for interstate efforts to develop a system of international economic governance that "was to be both open and institutionalized."[24] Pressured by societal demands for full employment, improvements to welfare and a more regulated capitalism, states sought a more conducive world political economy for pursuing domestic priorities. The negotiations between the

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19 Polanyi, *The Great Transformation*, p. 20.
20 Albert S. Lindemann, *A History of European Socialism*, London, Yale University Press, 1983, ch. 6; Przeworski, *Capitalism and Social Democracy*, pp. 207-208.
21 Gourevitch, *Politics in Hard Times*, p. 124.
22 Ibid.
23 Charles S. Maier, *In Search of Stability: Explorations in Historical Political Economy*, Cambridge, Cambridge University Press, 1987, p. 171; Francis G. Castles, *Comparative Public Policy: Patterns of Post-war Transformation*, Cheltenham, Edward Elgar, 1998, pp. 27-32. See also Fred Block, *Revising State Theory: Essays in Politics and Postindustrialism*, Philadelphia, Temple University Press, 1987, pp. 87-89.
24 Gourevitch, *Politics in Hard Times*, p. 167.

Allied powers at Bretton Woods, beginning in 1944, aimed to restore an international economy based on the principles of gradual economic liberalisation and domestic interventionism - a compromise between a liberal world economy and domestic stability. Free trade and full employment were seen as compatible: if full employment could be maintained, political pressures for protection would remain low and inflationary pressures resulting from full employment would be offset by the competitive effects of free trade.[25] Rather than the economic liberalism of the nineteenth century, Ruggie argues that the "fusion of power with legitimate social purpose" - the constituent parts of political authority - led to a period of "embedded liberalism."[26] Utilising Polanyi's distinction between embedded and disembedded economic systems, Ruggie argues that the post-war world political economy needed to reflect the changing basis of state-society relations to ensure a working, stable and legitimate international regime:

> demands for social protection were very nearly universal, coming from all sides of the political spectrum and from all ranks of the social hierarchy (with the possible exception of orthodox financial circles).[27]

US policy opinion, however, was divided between those who were disturbed by efforts to compromise the reinvigoration of an economic liberal world economy and those who saw the need for compromise.[28] In the final analysis, the US commitment to Bretton Woods was not an unequivocal endorsement of an "embedded liberal" world order, but a pragmatic response to the dire economic situation and growing 'threat' of communism in Western Europe. The Bretton Woods institutions - the International Monetary Fund and the World Bank - were underfunded and unable to fulfil their planned roles and the US took over responsibility for post-war reconstruction in Europe through the Marshall Plan.[29] By channelling capital and technology into Europe, the aim was to stimulate purchasing power "without creating burdensome repayment obligations," and to provide opportunities for US business.[30] An expansionary world economy was deemed by US policy-makers to be in the best economic and strategic

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25 Walter Russell Mead, "The World Economic Order: Perils After Bretton Woods," *Dissent*, Summer, 1990, p. 386.

26 Ruggie, "International Regimes, Transactions, and Change." See also Robert Kuttner, *The End of Laissez Faire: National Purpose and the Global Economy After the Cold War*, Philadelphia, University of Pennsylvania, 1991, p. 38.

27 Ruggie, "International Regimes, Transactions, and Change," p. 389. For Polanyi: "A self-regulating market demands nothing less than the institutional separation of society into an economic and political sphere. . . . Nineteenth century society, in which economic activity was isolated and imputed to a distinctive economic motive, was, indeed, a singular departure." Polanyi, *The Great Transformation*, p. 71.

28 G. John Ikenberry, "A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement," *International Organization*, 46(1),Winter, 1992.

29 Mica Panic, "The Bretton Woods System: Concept and Practice" in Jonathon Michie and John Grieve Smith (eds), *Managing the Global Economy*, Oxford, Oxford University Press, 1995, pp. 45-46.

30 Mead, "The World Economic Order," p 386.

interests of the US and extensive aid was used to underpin the Western alliance against the Soviet threat. Growth and support for the political centre in Europe were deemed to be the best defence against communism.[31]

After the failure to develop the International Trade Organisation, the interim General Agreement on Tariffs and Trade (GATT) became the primary mechanism for the institutionalisation of a more liberal world trading system, based on the principle of non-discriminatory trade. In this US-led post-war trade regime, trade was to be liberalised through multilateralism, but significant exceptions were allowed, "all designed to protect the balance of payments and a variety of domestic social policies."[32] Aberrations from the liberal ideal were seen, paradoxically, as an integral support mechanism for the gradual development of a more sustainable liberal world economy. And aberrations there were - in abundance. The basic principle of the GATT - the most-favoured nation clause - could be avoided by customs unions, free trade areas and imperial preference areas; the removal of non-tariff barriers could be avoided for balance-of-payments and security reasons; allowances were made for excessive increases in imports; and agricultural trade was excluded from negotiations. Overall, the trade regime was strong on exceptions and weak on enforcement, fitting with the general shift in the post-war period to allow states a significant measure of autonomy in the management of domestic economies. Despite the weak nature of the trade regime, gradual but significant progress was achieved in liberalising tariff barriers.

Finance was seen as different from trade by the Bretton Woods planners and was to be regulated to provide the basis for international and domestic stability.[33] As Keynes, who was Britain's chief negotiator at Bretton Woods, stressed: "What used to be a heresy is now endorsed as orthodox."[34] It was not just abnormal or speculative flows of financial capital that needed to be controlled, Keynes asserted, but 'normal' flows which were responses to international interest rate differentials:

> In my view the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world. Capital control is a corollary to this.[35]

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31 Maier, *In Search of Stability*, ch. 3.

32 Ruggie, "International Regimes, Transactions, and Change," p. 396. See also Richard N. Gardner, *Sterling-Dollar Diplomacy in Current Perspective*, New York, Columbia University Press, 1980.

33 There were, however, important differences in emphasis between the US and British delegations and, indeed, between the US negotiators themselves. The fundamental difference lay between those who saw departures from liberal norms as a necessary evil to be tolerated in the name of post-war reconstruction and those who saw the need for a restrictive international financial regime as ongoing. Eric Helleiner, "When Finance Was the Servant: International Capital Movements in the Bretton Woods Order" in Philip G. Cerny (ed), *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era*, Aldershot, Edward Elgar, 1993, p. 31.

34 Helleiner, "When Finance Was the Servant," p. 37.

35 Ibid., pp. 26-27. See also John Goodman and Louis Pauly, "The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets," *World Politics*, 26(1), 1993, p. 53.

According to Hirst and Thompson, the Bretton Woods system "was designed to avoid the external constraint imposed on national economies by the G[old] S[tandard], which had operated so disastrously in the inter-war period."[36] Capital controls, according to Eichengreen, "loosened the link between domestic and foreign economic policies, providing governments room to pursue other objectives like the maintenance of full employment."[37] Governments could more easily maintain expansionary macroeconomic policy regimes and increase the scope of welfare states. With continuing restrictions on financial flows, dominant economic forces within nation-states had fewer 'exit' options than they do today, enabling states to pursue a wider range of objectives that did not necessarily accord with the immediate demands of business and investors.[38] Through financial restriction, governments could more effectively structure domestic political economies in line with domestic political proclivities. The post-war order, a product of both domestic and international politics, enhanced state autonomy from external forces.

The extent of policy freedom for governments during this period should not, however, be exaggerated. As Cox points out: "Bretton Woods was a compromise between accountability of governments (especially of debtor countries) to institutions of the world economy and accountability of governments to domestic opinion for their economic performance and the maintenance of welfare."[39] States increasingly regulated market developments, but efforts to comprehensively challenge the market system were limited and seen to be less necessary as prosperity returned after the war. Even Left-wing governments were restricted by the extent to which they could challenge private control of investment.[40] Policy discretion was still limited by the need for economic growth and the power of capital (through the maintenance of private control over investment decisions). Major economic actors, including foreign corporations, still had considerable ability to influence policy-makers.

Despite these continuing constraints, the expansion of the state in the West over the post-war period provided a new challenge to liberal notions of state limitation and, whilst many saw increases in the state's protective and interventionist role as a necessary component of developing a more humane democratic society which would be able to avoid the deleterious consequences of unfettered markets, others warned that it

36 Hirst and Thompson, *Globalization in Question*, p. 45.
37 Eichengreen, *Globalizing Capital*, pp. 4-5.
38 For an explanation of the concept of 'exit', see Hirschman, "Exit, Voice, and the State."
39 Robert W. Cox, *Production, Power, and World Order*, New York, Columbia University Press, 1987, pp. 254-255.
40 Przeworski, *Capitalism and Social Democracy*; Michael Mann, "As the Twentieth Century Ages," *New Left Review*, 214, December, 1995.

was a step along the "road to serfdom."[41] Such voices were to be little heeded during the long economic boom of the post-war period as the 'social democratic' consensus, full employment, the welfare state and the 'mixed' economy expanded the role of the state and increased the power of labour.[42]

The 1950s and 1960s were a period of unprecedented economic prosperity in the developed world. The US-dominated post-war order, whilst generating momentum towards greater economic liberalisation, contributed to the ability of developed states to foster confidence that the conditions for sustained demand and growth would continue. A 'virtuous circle' was created as growth and state support for investment underpinned continuing business confidence and high investment underpinned growth.[43] Continuing growth meant an expanding revenue base and full employment meant that social payments such as unemployment benefits could be improved whilst keeping their total cost reasonably low. Buoyant economic conditions increased societal expectations about progressive improvements in living standards and an expanded and activist state was increasingly accepted as a fundamental part of capitalism, albeit to differing degrees in different countries. In relation to the advanced capitalist countries, Shonfeld, writing in the early 1960s, argued that :

> There is the vastly increased influence of the public authorities on the management of the economic system. . . . The preoccupation with social welfare leads to the use of public funds on a rising scale . . . . In the private sector the violence of the market has been tamed. . . . It has now come to be taken for granted, both by governments and by the average person in the Western capitalist countries, that each year should bring a noticeable increase in the real income per head of the population. . . . The characteristic attitude in large-scale economic management, both inside government and in the private sector, which has made itself increasingly felt during the postwar period, is the pursuit of intellectual coherence. Its most obvious manifestation is in long-range national planning. [44]

In the countries of Western Europe, in particular, comprehensive welfare states and a philosophy of social compensation provided high levels of social protection within efficient capitalist economies.[45] The period of the 1950s and 1960s has been described variously as the "golden age of capitalism" and as the "age of affluence" and many of those writing in the period believed that capitalism had been fundamentally transformed

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41 Polanyi, *The Great Transformation* and Friedrich von Hayek, *The Road to Serfdom*, Chicago, University of Chicago Press, 1975 [1944].

42 Wolfgang C. Müller, "Political Traditions and the Role of the State," *West European Politics*, 17(3), July, 1994; Fritz W. Scharpf, *Crisis and Choice in European Social Democracy*, Ithaca, Cornell University Press, 1991, pp. 22-25.

43 Andrew Glyn, Alan Hughes, Alain Lipietz and Ajit Singh, "The Rise and Fall of the Golden Age" in Stephen A. Marglin and Juliet B. Schor (eds), *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, Oxford, Clarendon Press, 1991.

44 Andrew Shonfeld, *Modern Capitalism: The Changing Balance of Public and Private Power*, London, Oxford University Press, 1965, pp. 65-67.

45 Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe*, Ithaca, Cornell University Press, 1985.

by state intervention.[46] British Labour politician Anthony Crosland, for example, argued in 1956:

> We stand, in Britain, on the threshold of mass abundance; and within a decade the average family will enjoy a standard of living which, whether or not it fully satisfies their aspirations will convince the reformer that he should turn his main attention elsewhere.[47]

From the late 1960s, however, problems began to emerge in the world political economy: declining productivity growth and profit share in the context of rising wages and increased labour militancy, escalating inflation, the growing instability of the Bretton Woods system and its unilateral abrogation by the US in 1971, and the oil shock of 1973.[48] All of these factors contributed to the end of the long boom and the development of stagflation - simultaneous recession and high inflation. Recession, slow growth and inflation, much more than globalisation, increased pressures on states to shift policy direction.[49] Rising inflation restricted the reinvigoration of growth as more and more states resorted to restrictive monetary and fiscal policies over the course of the 1970s and early 1980s.[50] As Dyster and Meredith argue:

> Price inflation undermined the stability of the international economy in the late 1960s and 1970s leading to the collapse of the Bretton Woods monetary system. Inflation originated in domestic economies, but was transmitted internationally by trade and monetary flows which intensified its impact.[51]

Inflation was increasingly seen as the most pressing economic problem facing capitalist countries and the post-war goal of full-employment fell by the wayside. Whilst economists such as Friedman saw inflation as a monetary phenomenon and a product of government fiscal and monetary policies, many political scientists and sociologists saw it as a product of distributional conflict.[52] Glyn argues that there are two major problems associated with full-employment: the Keynesian problem of how to secure sufficient demand and the Kaleckian problem of solving distributional conflicts.[53] The rise in distributional conflict caused by full employment, Glyn argues, created problems as business and the state were unable to hold down wages and control worker militancy.

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46 Stephen A. Marglin and Juliet B. Schor (eds), *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, Oxford, Clarendon Press, 1991; Vernon Bogdanor and Robert Skidelski, *The Age of Affluence*, London, Macmillan, 1970.

47 C. A Crosland, *The Future of Socialism*, New York, Macmillan, 1956, p. 515.

48 Glyn, Hughes, Lipietz and Singh, "The Rise and Fall of the Golden Age." For an alternative argument about the collapse of the postwar boom, see Robert Brenner, "The Economics of Global Turbulence," *New Left Review*, 229, 1998, ch. 1.

49 Andrew Glyn, "Social Democracy and Full Employment," *New Left Review*, 211, 1995, pp. 45-47.

50 See the contributions in Fred Hirsch and John H. Goldthorpe (eds), *The Political Economy of Inflation*, London, Martin Robinson, 1978. See also OECD, *Towards Full Employment* (McCracken Report), Paris, OECD, 1977.

51 Barrie Dyster and David Meredith, *Australia in the International Economy in the Twentieth Century*, Melbourne, Cambridge University Press, 1994, p. 230.

52 Maier, *In Search of Stability*, ch. 5.

53 Glyn, "Social Democracy and Full Employment," p. 36.

Increasing labour strength and the expansion of the public sector posed problems for business profitability and productivity and enhanced 'imported' inflationary pressures. Maier argues that the pursuit of growth as a "surrogate" for the more comprehensive redistribution desired by socialists in the developed countries was aided by inflation: "when growth could not keep up with expectations, inflation helped to disguise the lag." The trade-off was wrecked by accelerating inflation. As Maier notes: "beyond a certain rate, inflation cannot play this role as a social lubricant and instead aggravates the very distributional coalitions it helped assuage."[54]

From the early 1970s, a growing number of commentators on the Right argued that the political process had become 'overloaded', that societies were becoming increasingly 'ungovernable' and that excessive democratic and interest group pressures posed dangers for continued economic prosperity and even the longer-term survival of democracy.[55] King complained that: "Governments have tried to play God. They have failed. But they go on trying."[56] Brittan pointed out what he suggested were the "economic contradictions of democracy" which occurred due to "the generation of excessive expectations" and "the disruptive effects of the pursuit of group self-interest in the market place."[57] What was needed, he argued:

> was not another revolution in economic theory, but a revolution in constitutional and political ideas which will save us from the snare of unlimited democracy, before we find ourselves with no democracy - and very little freedom - left.[58]

By taking on too many tasks governments had contributed to an unsustainable expansion of societal expectations for improved living standards through state actions that bypassed competitive market processes. Electoral pressures and excessive expectations, economic liberals contended, impeded governments from making 'sound' policy decisions by forcing politicians to make promises and enact policies that were sub-optimal for economies in the longer-term. In other words, good politics was a fundamental impediment to good economics. Such problems meant that the policy discretion of elected governments should be restricted by constitutional devices at both

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54 Maier, *In Search of Stability*, p. 223.

55 Michael Crozier, Samuel P. Huntington and Joji Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission*, New York, New York University Press, 1975.

56 Anthony King, "Overload: Problems of Governing in the 1970s," *Political Studies*, 23(2&3), 1975.

57 Samuel Brittan, "The Economic Contradictions of Democracy," *British Journal of Political Science*, 5(2), 1975.

58 Samuel Brittan, "Can Democracy Manage an Economy?" in Robert Skidelsky (ed), *The End of the Keynesian Era*, London, Macmillan, 1977. For a critique of these arguments see Brian Barry, "Does Democracy Cause Inflation? Political Ideas of Some Economists" in Leon N. Lindberg and Charles S. Maier (eds), *The Politics of Inflation and Economic Stagnation: Theoretical Approaches and International Case Studies*, Washington, Brookings Institution, 1985.

the national and international levels - independent central banks, balanced budget amendments, and liberal international economic governance structures.

Many Marxists agreed with the broad thrust of the economic liberal analysis that the redistributive 'social democratic' state had reached its limits, although their prescriptions, of course, were somewhat different. The growing economic malaise of the late 1960s and early 1970s had led, according to O'Connor, to a "fiscal crisis of the state," caused by an expanding "structural gap" between expenditure and revenue.[59] The fiscal crisis was attributed to the fact that the state needed to support and subsidise private investment and provide social and technical infrastructure and welfare services, whilst being pressured to restrict taxation levels. Habermas and Offe outlined the increasing contradictions that the state faced in supporting the accumulation process whilst maintaining state and capitalist 'legitimacy'.[60] Habermas maintained that:

> Because the economic crisis has been intercepted and transformed into a systematic overloading of the public budget, it has put off the mantle of a natural fate of society. If governmental crisis management fails, it lags behind programmatic demands *that it has placed on itself.* The penalty for this failure is withdrawal of legitimation. Thus the scope for action contracts precisely at those moments in which it needs to be drastically expanded.[61]

Over the post-war period, governments took greater responsibility for the performance of the economy and, whilst growth continued, this was a comfortable role. But having taken credit for good economic times, governments were then blamed for the bad times. As Hall contends: "the political visibility of economic management, so carefully nurtured after the war, became a political liability."[62] Whilst in the earlier economic crises of the late nineteenth century and the 1930s it was the market that was blamed for economic problems, the fact that in the 1970s "activism was the incumbent philosophy" meant, Gourevitch argues, that the state was held responsible.[63] Governments espousing interventionist macroeconomic policies and maintaining or expanding welfare states, continued, in effect, to assert that interventionist policy actions could ameliorate economic woes and, as a result, continued to be held responsible for economic outcomes.

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59 James O'Connor, *The Fiscal Crisis of the State*, New York, St. Martins Press, 1973.

60 Jürgen Habermas, *Legitimation Crisis*, London, Heinemann, 1976; Claus Offe, "The Theory of the Capitalist State and the Problems of Policy Formation" in Leon Lindberg, Robert Alford, Colin Crouch and Claus Offe (eds), *Stress and Contradiction in Modern Capitalism*, Lexington, Lexington Books, 1975. See also Andrew Gamble and Paul Walton, *Capitalism in Crisis: Inflation and the State*, London, Macmillan, 1976.

61 Habermas, *Legitimation Crisis*, p. 69.

62 Peter A. Hall, "Remarks for the CES Conference on 'Deregulating the Economy: Politics and Regulation in the Advanced Industrial Democracies'," mimeo, April 25, 1992.

63 Gourevitch, *Politics in Hard Times*, p. 227.

As past solutions no longer seemed to work, disillusionment with the political process grew. Low growth and higher levels of unemployment meant higher taxes were needed to fund burgeoning welfare payments. Expanding demands on state budgets sparked louder calls from business and the wealthy to reduce government spending, but such demands were not accompanied by decreasing expectations of state provision of services and assistance. As governments attempted to cut back on the growth of the state to appease business and middle class interests, half-hearted state programmes reinforced the sense of state failure, especially in relation to the largest of all economic problems - seemingly intractable and sustained high unemployment.[64]

Continuing economic and political pressures led policy-makers to seek a new policy paradigm or regime that could cope with capitalist crisis and reshape public expectations about the role of the state. Particularly important in the increased acceptance of economic liberal ideas was the belief that exposure to the world political economy and market disciplines on policy would ease some of the domestic difficulties in controlling inflation and public spending.[65] Hall argues that in a period of economic stagnation, policy-makers were increasingly forced to allocate sacrifices and that such painful and electorally damaging tasks encouraged them to search for ways to rid themselves of responsibility for economic outcomes. The market, Hall asserts, "seemed to offer precisely the right sort of political relief":

> Relying on markets to allocate resources poses many problems but - in hard times - it has some distinct political advantages. For one, it is a way of enforcing economic sacrifices that is not so clearly visible in political terms as neo-corporatist or interventionist alternatives. For another, the operation of market forces can be readily presented as a '*natural* process' to which one must accede. Any suffering that results, as companies go bankrupt or individuals are laid off, can be presented as the consequences of their own unfortunate decisions or poor placement on the market. Finally, let us not mince words. Loosening the restrictions on markets in a setting of high unemployment could be an effective way to reduce the power of organized labor; and for a variety of reasons, many European governments saw that as desirable in the 1980s.[66]

This search for relief was backed by a growing number of citizens who saw the expanding state and 'excessive' trade union power as the fundamental causes of economic problems.[67] Also supportive were internationally-focused sections of business and finance who wanted to weaken labour power and break free of restrictive regulations. Capital aimed to strengthen exit options and policy-makers became

64 G. John Ikenberry, "Funk de Siècle: Impasses of Western Industrial Society at Century's End," *Millenium*, 24(1), 1995, p. 116. See also Peter Evans, "The Eclipse of the State? Reflections on Stateness in an Era of Globalization," *World Politics*, 50, October, 1997, p. 75.

65 OECD, *Towards Full Employment*. For a discussion in relation to Sweden and Norway, see Ton Notermans, "The Abdication From National Policy Autonomy: Why the Macroeconomic Policy Regime Has Become So Unfavourable to Labour," *Politics and Society*, 21(2), June, 1993.

66 Hall, "Remarks for the CES Conference on 'Deregulating the Economy'," pp. 11-12.

67 Gourevitch, *Politics in Hard Times*, ch. 5.

increasingly willing to oblige.[68] Whilst many writers argue that policy shifts were a direct result of external economic pressures, it is necessary to note, as does Marglin, that:

> While there may be adequate reasons for a retreat from Keynesian policies rooted in international considerations, these were at the very least reinforced by domestic considerations of both capital-labour conflict and the acceleration of inflation. Once again internal and external problems became intertwined, perhaps inextricably so.[69]

Efforts by policy-makers and economic actors to find a way out of the economic dilemmas of the 1970s were crucial in the intensification of economic globalisation. The turn to economic liberal policies spurred the globalisation process and made domestic political economies more directly subject to external pressures and forces, augmenting domestic economic constraints on policy. Economic liberalism increased disciplines on public demands, without the resort to political authoritarianism that analysts such as Brittan and King feared.

Attempts were made in some countries to comprehensively extend the interventionist role of the state, but such efforts have been downgraded over the 1980s and 1990s.[70] Moves to stem the growth of the state were embraced firstly by governments of the Right, but the Left soon followed, abandoning even rhetorical commitments to socialism and policies of economic redistribution. Political and economic elites increasingly argued that restoring economic growth required an increasing turn to economic liberalism - containing the growth of the state generally, reducing the scope of the welfare state, privatising and corporatising public enterprises, liberalising boundary controls, increasing competition within domestic economies and liberalising labour relations. The reluctance of wealthier sections of populations to accept increasing taxation, and of political parties to advocate it, has been particularly

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68 Eric Helleiner, "Great Transformations: A Polanyian Perspective on the Contemporary Global Financial Order," *Studies in Political Economy*, 48, Autumn, 1995.

69 Stephen A. Marglin, "Lessons of the Golden Age: An Overview" in Stephen A. Marglin and Juliet B. Schor (eds), *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, Oxford, Clarendon Press, 1991, pp. 22-23. In relation to the relative importance of internal and external factors in the shift away from expansionary policies in the Scandinavian countries, see the debate between Notermans and Moses: Notermans, "The Abdication from National Policy Autonomy," and Jonathan W. Moses, "Abdication from National Policy Autonomy: What's Left to Leave," *Politics and Society*, 22(2), June, 1994.

70 Scharpf, *Crisis and Choice in European Social Democracy*; Jonas Pontusson, "At the End of the Third Road: Swedish Social Democracy in Crisis," *Politics and Society*, 20(3), September, 1992; Gregory Albo, "'Competitive Austerity' and the Impasse of Capitalist Employment Policy" in Ralph Miliband and Leo Panitch (eds), *The Socialist Register - 1994*, London, Merlin Press, 1994; Daniel Drache, "From Keynes to K-Mart: Competitiveness in a Corporate Age" in Robert Boyer and Daniel Drache (eds), *States Against Markets: The Limits of Globalization*," London, Routledge, 1996. This is not to suggest that important differences remain between countries in terms of support for economic liberalism. Compare Geoffrey Garrett and Peter Lange, "Political Responses to Interdependence: What's 'Left' for the Left," *International Organization*, 45(4), Autumn, 1991; Garrett, Geoffrey "Capital Mobility, Trade, and the Domestic Politics of Economic Policy," *International Organization*, 49(4), Autumn, 1995.

important in restricting expansionary and redistributive policies. As Mann points out: "Since around 1980 enough taxpayers have been refusing to pay up to stymie the ideals of Social Democracy, Christian Democracy and liberalism just about everywhere."[71] Low growth and high inflation exposed the extent to which social democratic policies of redistribution were reliant on the achievement of private economic success. The basis of the post-war international economic order - the compromise between economic liberalisation and domestic stability - broke down as economic crisis and low growth undermined existing policy priorities and structures.

Globalisation and the Changing Role of the State

> The nation state is just about through as an economic unit . . . . [T]he world is too small. It is too easy to get about. Two-hundred-thousand-ton tankers, containerization . . . airbuses and the like will not permit the sovereign independence of the nation state in economic affairs.[72]
>
> [T]he nation state has become an unnatural, even dysfunctional unit for organising human activity and managing economic endeavour in a borderless world. It represents no genuine, shared community of economic interests; it defines no meaningful flows of economic activity.[73]
>
> Globalisation has become associated with a 'crisis of the territorial nation-state'.[74]

The account provided in the previous section indicates the significant impact of *both* international and domestic factors on states and the policy process. In recent years, however, many analysts have argued that the scope of policy and the power of states have been irreversibly undermined by globalisation.[75] The idea that global economic actors and markets are increasingly dominating states is an important element of the globalisation thesis; a world economy has emerged, it is argued, that is beyond the control of states, even when acting collectively.

An important recent account of state decline and the marginalisation of politics is provided by Strange.[76] In an earlier influential international political economy text,

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71 Mann, "As the Twentieth Century Ages," p. 119.
72 Kindleberger, cited in Timothy Koechlin, "The Responsiveness of Domestic Investment to Foreign Economic Conditions," *Journal of Post Keynesian Economics*, 15(1), Fall, 1992, p. 64.
73 Kenichi Ohmae, "The Rise of the Region State," *Foreign Affairs*, 72(2), 1993, p. 78.
74 David Held and Anthony McGrew, "Globalization and the Liberal Democratic State," *Government and Opposition*, 28(2), 1993, p. 262.
75 Peter Drucker, *The New Realities*, Oxford, Heinemann, 1989; *Post-Capitalist Society*, Oxford, Butterworth Heinemann, 1992; Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies*, London, Harper Collins, 1995; Robert B. Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism*, New York, Vintage Books, 1992; John Gerard Ruggie, "Territoriality and Beyond: Problematizing Modernity in International Relations," *International Organization*, 21(3), Winter, 1993.
76 Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy*, Cambridge, Cambridge University Press, 1996.

Strange argued that there are four main structures - production, finance, security and knowledge - that make up the world political economy. The power to shape these structures (structural power) is the most important form of power and is different from the ability to exercise power within them (relational power).[77] Whilst acknowledging that in the post-war period the US was the most important source of structural power, Strange argues that US policy decisions, especially in finance, have undermined its power and brought about a shift in structural power from states to markets.

> The United States, using its structural power to lock European, Latin American and now African and Asian economies into an open world market economy, certainly intended to reap benefits and new opportunities for American business. What its policy-makers did not fully intend . . . was the enhanced power this would give to markets over governments, including their own. . . . The shift from state authority to market authority has been in large part the result of state policies. It was not that the TNCs stole or purloined power from the government of states. It was handed to them on a plate - and, moreover, for 'reasons of state'.[78]

According to Strange, the combination of political decisions, microeconomic action and technological advance means that the state is no longer the most important source of change in the international political economy; power is now more *diffused* between states, markets, transnational firms and other non-state authorities.[79] The shift in power from states to markets is most evident, she argues, "in matters of production, trade, investment and finance" - that is, in the production and financial structures.[80] It is the market that is increasingly shaping the structures of the world political economy. For Strange, states, as sources of authority, are fundamentally in decline, struggling to deal with the challenges of global markets, technological change and alternative sources of authority generally: "the impersonal forces of world markets, integrated over the post-war period more by private enterprise in finance, industry and trade than by the cooperative decisions of governments, are now more powerful than the states to whom ultimate political authority over society and economy is supposed to belong."[81]

Strange's argument, however, exaggerates both the current decline and past potency of state power in capitalist societies. Whilst international financial markets are now extremely important in structuring political economic developments, so they were in the late nineteenth century and early twentieth century. As outlined above, the struggle to control and shape societal and economic forces has exercised states throughout history and advanced capitalist states have neither been unequivocal 'masters of markets', nor

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77 Susan Strange, *States and Markets*, London, Pinter, 1988. See also Susan Strange, "An Eclectic Approach" in Craig Murphy and Roger Tooze (eds), *The New International Political Economy*, Boulder, Lynne Rienner Publishers, 1991.
78 Strange, *The Retreat of the State*, p. 29.
79 See also Marino Regini, *Uncertain Boundaries: the Social and Political Construction of European Economies*, Cambridge, Cambridge University Press, 1995.
80 Strange, *The Retreat of the State*, p. 43.
81 Ibid., p. 4.

have they necessarily had this as their aim. Working out the significance of recent economic challenges to state power will be helped by a recognition of the long-standing structural economic constraints on state power.[82] At the same time, and as argued in chapter two, the extent to which global economic activity has made nation states less important has been overstated. Economic activity, both domestic and international, remains reliant on state support and regulation.

Held and McGrew make an important distinction between sovereignty - "the political authority within a community" - and autonomy - "the state's capacity to act independently."[83] According to them, "sovereignty is only eroded when it is displaced by forms of 'higher' and/or independent authority which curtail the rightful basis of decision-making within a national polity."[84] States continue to be the locus of authoritative, but not necessarily effective, decision-making, developing institutional structures that both mediate and shape the effects of the world political economy. Despite the challenges to state autonomy, it is important to note, as does Pauly, that:

> If sovereignty is defined as policy autonomy, then increased international capital mobility seems necessarily to imply a loss of sovereignty. This old chestnut ignores, however, both an extensive literature on the evolution of the legal concept of sovereignty and a generation of research on the political trade-offs entailed by international economic interdependence. Furthermore it downplays the stark historical lessons of 1914: Under conditions of crisis, the locus of ultimate political authority in the modern age - the state - is laid bare. Especially through its effects on domestic politics, capital mobility constrains states, but not in an absolute sense. If a crisis increases their willingness to bear the consequences states can still defy markets. More broadly, the abrogation of the emergent regime of international capital mobility by the collectivity of states may be unlikely and undesirable, but it is certainly not inconceivable. As long as that remains the case, states retain their sovereignty.[85]

The *potential* for state action, therefore, remains, albeit as an unknown quantity. Whilst we can speculate about the significance of cross-border economic flows and technological developments, it is possible that arguments about the decline or continuation of state power are irresolvable whilst policy-makers in the major states continue to embrace economic liberalism and globalisation. The argument that the

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82 Neo-Marxist work has been particularly important in this regard, although non-Marxists have also recognised the impact of structural economic constraints on the state. Important Marxist works include: Ralph Miliband, *The State in Capitalist Society*, London, Quartet Books, 1987 [1969]; Nicos Poulantzas, *Political Power and Social Classes*, New Left Books, London, 1973; O'Connor, *The Fiscal Crisis of the State*; Adam Przeworski, *Capitalism and Social Democracy*, Cambridge, Cambridge University Press, 1985; Block, *Revising State Theory*. For important non-Marxist contributions see Charles Lindblom, *Politics and Markets*, New York, Basic Books, 1977; Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France*, New York, Oxford University Press, 1986.

83 Held and McGrew, "Globalisation and the Liberal Democratic State," p. 265.

84 Ibid., pp. 265-266. For a similar and more detailed argument along these lines see also Thomson, "State Sovereignty in International Relations."

85 Louis W. Pauly, "Capital Mobility, State Autonomy and Political Legitimacy," *Journal of International Affairs*, 48(2), Winter, 1995, p. 373.

world economy determines domestic political possibilities is not seen by policy-makers and economic elites as a view to be disavowed .

To see globalisation as a force which states resist until they believe there is no other choice is to miss the point that globalisation is seen to provide both economic and political opportunities for state actors and powerful societal forces. The argument that states and international economic actors are inextricably opposed entities, both seeking dominance in the world political economy, provides an inadequate conceptualisation of the relationship between globalisation and the state.[86] As Sassen points out, there is "a growing consensus among states to further the growth and strength of the global economy."[87] The prevalence of a 'states versus markets' viewpoint is spurred by the fact that the state is seen to be 'the problem' by many economic liberals (including those within the state itself) impeding the proper functioning of the market. From a different perspective, it is also encouraged by the view that state power is necessarily associated with the ability to maintain the policy structures of the post-war Keynesian welfare state.

Since the crisis of the 1970s, the focus of state intervention has shifted towards facilitating and enforcing societal adjustment to the world political economy. Policy-makers have aimed, firstly, to strengthen the position of globally-focused business and, secondly, to downgrade the state's socially protective function. Cerny argues that the form of the state in the advanced capitalist countries has changed from a 'welfare state' to what he calls a 'competition state'. This shift, he argues, has encompassed three major changes:

> (a) a shift from macroeconomic to microeconomic interventionism, reflected in the conceptualization and operationalization of 'industrial policy'; (b) a shift in the focus of that interventionism from the development and maintenance of a range of 'strategic' or 'basic' industries. . . to one of flexible response to competitive conditions in a range of diversified and rap[idly evolving international marketplaces (what has been called 'competitive advantage') and finally; (c) a shift in the focal point of party and governmental politics from the general maximisation of welfare within a national society (full employment, redistributive transfers, and social service provision) to the promotion of enterprise, innovation, and profitability in both private and public sectors.[88]

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86 Such a construction is implied in the title of a recent edited volume on globalisation. See Robert Boyer and Daniel Drache (eds), *States Against Markets: The Limits of Globalization*, London, Routledge, 1996. Although the accounts contained within such volumes belie this simplistic construction, the conception remains a popular image of economic globalisation.

87 Saskia Sassen, "The Spatial Organization of Information Industries: Implications for the Role of the State" in James H. Mittelman (ed), *Globalization: Critical Reflections*, London, Lynne Rienner, 1996, pp. 42 & 45-46.

88 Cerny, *The Changing Architecture of Politics*, p. 205. For a reiteration of this argument see Philip G. Cerny, "Paradoxes of the Competition State: The Dynamics of Political Globalization," *Government and Opposition*, 32(2), Spring, 1997.

Jessop, similarly, argues that prolonged economic crisis has led to "economic and political forces" searching for a new system of governance: a search which has created "a structural transformation and fundamental strategic reorientation of the capitalist state."[89] Playing on the notion of the Keynesian welfare state, Jessop argues that there is a tendential development towards a "hollowed-out Schumpetarian workfare state." States have increasingly attempted "to promote product, process, organisational, and market innovation in open economies in order to strengthen as far as possible the structural competitiveness of the national economy by intervening on the supply-side; and to subordinate social policy to the needs of labour market flexibility and/or to the constraints of international competition."[90] According to Jessop, there are four major factors pressuring the development of this new state form: "the rise of new technologies . . . growing internationalisation . . . the paradigm shift from Fordism to post-Fordism; and the regionalisation of global and national economies."[91]

Despite acknowledging the state's critical role in spurring the adjustment process, Cerny argues that the changing role of the state also signals a decline in its policy autonomy and power. The state, Cerny contends, has been both "an agent of its own transformation" and a "major source of the development of globalization itself."[92] But this is not indicative of continuing state power. Rather, states "undermine and legislate away their own power, confronted by the *imperatives* of international competitiveness."[93] In other words, states have no choices other than to continue to facilitate a reduction in their power. Cerny agrees with Strange that continuing state power and globalisation are mutually exclusive possibilities. The major point of contention, then, is the extent to which policy changes have been forced or determined by globalisation and whether policy-makers, by liberalising economic processes and attempting to facilitate further globalisation through liberal international governance structures, are actually undermining the power of the state or whether they are reformulating its role, strengthening some aspects by weakening others.

Focusing on the smaller nation-states of Australia, New Zealand, Denmark and Sweden, Schwartz argues that economic policy changes in the 1980s constituted not only a shift to a smaller state, but also to a new governing regime that has enhanced *central* state autonomy. The need to retain and increase international competitiveness

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89 Bob Jessop, "The Transition to Post-Fordism and the Schumpeterian Workfare State" in Roger Burrows and Brian Lester (eds), *Towards a Post-Fordist Welfare State*, London, Routledge, 1994, p. 24.
90 Ibid.
91 Ibid., p. 25.
92 Philip G. Cerny, "The Dynamics of Financial Globalization: Technology, Market Structure, and Policy Response," *Policy Sciences*, 27(4), 1994, p. 321.
93 Ibid., pp. 321-322. Emphasis added.

led, Schwartz argues, to an alliance of politicians, fiscal bureaucrats, and businesses and unions in export and import-competing industries. Although these various players had differing aims, the general desire was to reduce fiscal demands on the state and to subject the non-traded sector of the economy, of which the public sector was the largest component, to competitive market pressures.[94] According to Schwartz:

> Economic deregulation and liberalisation during the 1980s freed the state from the political costs of policy failure in the economic arena and from the obligation to make microeconomic interventions that contradicted their macroeconomic policies. The efforts to introduce market pressures into the welfare state parallels economic deregulation in this regard, aiming to extricate the state from the management of social problems.[95]

Schwartz's more nuanced account points out the importance of domestic factors and, in particular, the role of the state in shifting regulatory structures towards a greater reliance on market forces. In many cases it is states that have organised and led restructuring processes. Developments in the world political economy create pressures for policy changes, but they do not produce a map or a plan to be followed (despite the assertions of many policy-makers). Domestic politics continues to shape the extent and pace of change and the degree to which changes are institutionalised and thus rendered difficult to reverse. As Gourevitch contends: "changes in structure within countries in response to international competitive pressures do not happen automatically. They require changes in policy that depend on shifts in politics to produce new rules and regulations."[96] Policy-makers and other supporters of policy change still need to develop coalitions and persuade or marginalise opponents of policy change.

The shift to economic liberalism constitutes a changing strategy of governance, rather than a weakening of the state. As economic and technological change occurs, governments and the wider state also adapt, both dealing with and affecting the process of change. In other words, the process of globalisation both shapes and is shaped by the continuing need for governance. Whilst technology may advance the capacity of economic actors to move capital, goods and services more easily and control multiple sites of economic activity, it also enables states to develop new regulatory procedures and to increase the sophistication of surveillance. Even in economic liberal arguments, the notion of an unequivocal reduction in the role of the state is misleading: those advocating a reduction in the role of the state do not advocate a reduction in all of the state's functions or of state power. Instead, the focus is on decreasing the state's

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94 Herman Schwartz, "Small States in Big Trouble: State Reorganisation in Australia, Denmark, New Zealand, and Sweden in the 1980s," *World Politics*, 46(4), 1994.

95 Ibid., p. 553.

96 Peter Gourevitch, "The Micropolitics of Microinstitutional Differences in the Analysis of Comparative Capitalism" in Suzanne Berger and Ronald Dore (eds), *National Diversity and Global Capitalism*, Ithaca and London, Cornell University Press, 1996, p. 241. See also Gourevitch, *Politics in Hard Times*, p. 20.

redistributive functions. Those arguing for welfare state retrenchment, at the same time generally support an increase in the state's policing and security roles. Governments have not yet been able to extricate themselves from managing the deleterious effects of market processes, but through efforts at public persuasion and through coercive policy changes, policy-makers have worked on reversing expectations that the state's protective and redistributive functions will continue to expand. As Ikenberry contends, the advanced capitalist states have "tried to reduce the public's expectations about what national governments are responsible for doing and achieving. The idea is to 'shed' some of the state's perceived responsibility for social and economic well-being, and thereby remove it as an object of blame."[97]

The Changing Dimensions of State Policy Autonomy

> General international rules are at least as useful in protecting a government from domestic interest groups as they are in protecting it from abuses by other governments. It is no paradox that the observance of general rules *increases* a government's freedom and ability to pursue genuine national interests.[98]

Support for economic liberal globalisation among political and economic elites in the developed capitalist democracies has undermined understandings of policy autonomy based on post-war 'embedded liberal' norms. Autonomy should not necessarily be equated with the ability of governments to maintain past patterns of state regulation, such as Keynesian welfare state structures of intervention, or, in Australia's case, a protective policy structure. Indeed, an inability to move away from existing restrictive policy structures would be indicative of a lack of autonomy, albeit from entrenched domestic forces. In conceptualising state autonomy and capacity it is necessary to ask: autonomy from whom? (who can be persuaded, ignored or marginalised in the process of policy determination?) and capacity to do what? (achieve what outcomes?). What is most important is how states organise 'adjustment'. As Ikenberry maintains:

> The problem of adjustment is a fundamental dynamic that bears on domestic and international political economy. All states are continuously in the process of adjusting to changes in international and domestic systems.[99]

Policy autonomy is conceptualised in a variety of ways. In popular conceptions, it is often equated with the ability of elected governments to implement policies in line with party programmes and agendas. When governments are impeded or change policy

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97 Ikenberry, "Funk de Siècle," p. 121.
98 Richard Blackhurst, a GATT staff economist, cited in John Gerard Ruggie, "At Home Abroad, Abroad at Home: International Liberalisation and Domestic Stability in the New World Economy," *Millenium*, 24(3), 1994, p. 513.
99 Ikenberry, "The State and Strategies of International Adjustment," p. 54.

direction in response to economic crises, it is often argued that policy autonomy has been weakened by economic forces or developments. Alternatively, if governments fail to enact economic reforms, because of entrenched political opposition, it may be argued that policy autonomy is constrained by the excessive power of interest groups or simply the machinations of the political process. As outlined previously, economic liberals have long argued that the democratic process, excessive societal expectations and special interests undermine effective economic governance.

Moving beyond conceptions of the state as the tool of the ruling (capitalist) class or as a "committee for managing the common affairs of the whole bourgeoisie,"[100] neo-Marxists developed the concept of 'relative autonomy' to explain the state's ability to mediate between different fractions of capital, to satisfy the needs for both legitimation and accumulation, and to maintain the conditions for continued long-term capital accumulation.[101] In such formulations, the state could be seen as "the ideal collective capitalist."[102] An important contribution to 'neo-Marxist' state theory came from Block who argued for a conceptualisation of state power that went beyond the notion of an always 'relative' autonomy:

> Depending on historical, sociological and political economic circumstances, states can potentially play pivotal 'autonomous' roles in the determination of policy directions. The state, as well as reacting to societal developments, conditions and shapes them.[103]

Block pointed out that there are "multiple business interests" which need to be reconciled with the maintenance of a state's international position and social peace. As a result, policy-makers "have a good deal of freedom to maneuver in formulating policies, and business people have a great deal of difficulty figuring out which policies would benefit them over the long term."[104]

Reacting against the supposed society-centred nature of liberal and neo-Marxists theories of the state, a group of scholars - so-called 'state-centric' theorists - aimed to 'bring the state back in', by focusing on states as autonomous actors.[105] For Skocpol, state autonomy is equated with the ability of the state to "*formulate* and *pursue* goals that are not simply reflective of the demands and interests of social groups, classes, or society." Related, but distinct, is the concept of state capacity, which, according to

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100 Karl Marx and Friedrick Engels, *Manifesto of the Communist Party*, Moscow, Foreign Languages Publishing House, n. d. [1848].

101 See for example Poulantzas, *Political Power and Social Classes*; O'Connor, *The Fiscal Crisis of the State*. See also Ralph Miliband, *Marxism and Politics*, Oxford, Oxford University Press, 1977, pp. 74-90. For a review of the Marxist debates, see Bob Jessop, *State Theory: Putting the Capitalist State in its Place*, Cambridge, Polity Press, 1990.

102 Claus Offe, *Contradictions of the Welfare State*, London, Hutchinson, 1984.

103 Block, *Revising State Theory*, p. 20.

104 Ibid., p. 17.

105 See in particular Evans, Rueschemeyer and Skocpol, *Bringing the State Back In*.

Skocpol, concerns the ability of the state to "*implement* official goals, especially over the actual or potential opposition of powerful social groups or in the face of recalcitrant socioeconomic circumstances."[106] In other words, states have autonomy when they can act independently of (particular) oppositional societal forces and have capacity when they can successfully implement autonomous goals.

This focus on the state as a potentially autonomous actor gives the state an analytical primacy (in the 'first instance', so to speak) and provides an important corrective to views that the state develops policy in direct response to societal interests and pressures. However, the analytical privileging of the state runs the risk of downplaying societal support for state policy directions and the extent to which capitalist states continue to be structurally constrained by the need (to attempt) to maintain the conditions for economic growth.[107] Conceptions of state capacity need to take into account that state 'goals' may be shaped, in the first place, by policy-maker perceptions of a lack of autonomy from particular societal and international forces.

Working out state capacities is dependent on what policy-makers are trying to achieve and in many cases there will be multiple aims. Politicians and bureaucrats will not necessarily have the same goals and hence the same conceptions of what constitutes policy capacity. Whilst conceptions of bureaucrats as motivated by empire-building and the expansion of public budgets have been damaged by their support for economic liberalism (particularly fiscal retrenchment), governments can still be assumed to have re-election as their major goal.[108] Politicians, then, may have exhibited capacity simply by retaining office, especially if they have done so during 'difficult times'. If governments can convince voters that economic difficulties or 'new global realities' mean that state capacities are limited, it could be argued, albeit paradoxically, that this

106 Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research" in Evans, Rueschemeyer and Skocpol, *Bringing the State Back In*. Emphasis added.

107 For critiques, see Block, *Revising State Theory*, pp. 20-22; Jessop, *State Theory*, ch. 10; and Gabriel A. Almond, "Return to the State," *American Political Science Review*, 82(3), 1988.

108 Although bureaucrats have argued for a smaller state, the motivation for this has, in many cases, been to strengthen the role of central agencies or as Schwartz calls it, "the state of the fisc." Schwartz, "Small States in Big Trouble," p. 537. The Labor Government also defied public choice analyses and assumptions. The Government enacted policies that were, in the short to medium-term at least, detrimental to their core working class and public sector constituencies. Assumptions such as those by Garrett and Lange - "Playing the distributional game will tend to dominate the government's agenda over concerns about aggregate economic performance. Politicians cannot afford to ask what is good for society as a whole in the long run, lest they lose power in the interim," appear to be contradicted by Labor's embrace of economic liberalism. The contradictions of the 1980s and 1990s reveal the dangers of game theoretic/rational choice assumptions and parsimonious explanations. Geoffrey Garrett and Peter Lange "Internationalization, Institutions, and Political Change," *International Organization*, 49(4) Autumn 1995, p. 631. For an analysis of public choice theory see Peter Self, *Government by the Market: The Politics of Public Choice*, London, Macmillan, 1993; Hugh Stretton and Lionel Orchard, *Public Goods, Public Enterprise, Public Choice: Theoretical Foundations of the Contemporary Attack on Government*, New York, St. Martin's Press, 1994.

constitutes an important example of state capacity. Similarly, the ability to open an economy more fully to globalisation pressures, shifting to more market-based regulatory structures and successfully persuading electorates that alternative political choices are unviable, could also be indicative of state capacity. In this formulation, capacity is equated with the ability of a state, in Cox's words, to "adjust national economic practices and policies to the perceived exigencies of the world political economy."[109]

Evans, Rueschemeyer and Skocpol argue that comprehensive state interventions may "lead to a diminution of state autonomy and to a reduction of any capacities the state may have for coherent action."[110] What may have been indicative of state capacity in earlier times may end up restricting the state's ability to change policy directions in response to changing societal and international circumstances. A proclivity to intervene and take responsibility for economic outcomes may make the state a target for business, labour and other interest groups to offset economic pressures or respond to new issues.[111] As Ikenberry points out:

> [T]he state's withdrawal from regulatory involvement in the economy - reimposing the market - may be as powerful an expression of state capacity as intervention was in the first place. . . . In the final analysis, state capacity appears to have more to do with the flexibility of state action - the ability of government to provide itself with the broadest array of options as it anticipates the next socio-economic crisis - than it does with the degree of government control of the economy and society or the level of the state's organizational development.[112]

The issue of capacity turns around the question of state goals. Ikenberry defines state capacity as "the ability of states to exert control over political outcomes."[113] Increasingly, the political outcome that has been sought is to adapt to international and domestic pressures by lessening the state's control over and responsibility for economic outcomes. As Smith points out, the shift to economic liberalism, should not be seen "as celebrants would have it, as the state's 'moving aside' (finally!) in favor of the market,

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109 Robert W. Cox, "Global Perestroika" in Ralph Miliband and Leo Panitch (eds), *The Socialist Register - 1992*, London, Merlin Press, 1992, pp. 30-31. See also Cox, *Production, Power, and World Order*.

110 Evans, Rueschemeyer and Skocpol, "On the Road Toward a More Adequate Understanding of the State," p. 354. See also Dietrich Rueschemeyer and Peter B. Evans, "The State and Economic Transformation: Toward an Analysis of the Conditions Underlying Effective Intervention" in Peter Evans, Dietrich Rueschemeyer and Theda Skocpol (eds), *Bringing the State Back In*, Cambridge, Cambridge University Press, 1985.

111 Mancur Olson, *The Rise and Decline of Nations*, New Haven, Yale University Press, 1982. From a different perspective see also Doug McEachern, *The Expanding State: Class and Economy in Europe Since 1945*, New York, St. Martin's Press, 1990.

112 G. John Ikenberry, "The Irony of State Strength: Comparative Responses to the Oil Shocks in the 1970s," *International Organization*, 40(1), Winter, 1986, p. 135. See also David Potter, "The Autonomy of Third World States within the Global Economy" in Anthony G. McGrew, Paul G. Lewis et al. (eds), *Global Politics: Globalization and the Nation-State*, Cambridge, Polity Press, 1992, p. 223.

113 Ikenberry, "The Irony of State Strength," p. 133.

but as adaptations by state officials to power shifts at both international and domestic levels."[114] The imposition of market mechanisms enhances a state's domestic autonomy by allowing the state to delegate the determination of outcomes to an apparently 'neutral' arbitrating mechanism, thus restricting political pressures on the state for policies that require increased spending or the insulation of actors from competitive pressures. The economic liberal aim is to naturalise or legitimise the market as the most appropriate 'regulatory' mechanism and to construct the world political economy as the market writ large. Whilst various actors undoubtedly have different motivations and values, such a direction for the state is seen by policy-makers as the best way to maintain the fiscal viability of the state and to ensure a dynamic economy which is, after all, the basis for ensuring state revenue. That the impact of economic liberal governance may have adverse effects on poorer sections of society may be of less concern.

Weiss asserts that it is necessary to distinguish between autonomy and capacity and uses the Hawke Labor Government's policy towards the textiles, clothing and footwear industries as an example of a state intervention that exhibited autonomy without capacity. As will be discussed in the following chapters, despite the fact that significant societal interests (including a core part of Labor's electoral constituency) were opposed to the removal of protection, the Government was still able to reduce protection substantially. According to Weiss, however, the state was not able, that is it did not have the 'capacity', to *effectively* restructure the industries. Weiss focuses on what she calls "transformative capacity," which is defined as:

> the ability of a state to adapt to external shocks and pressures by generating ever-new means of governing the process of industrial change . . . the capacity to devise and implement policies that augment a society's investible surplus, as opposed to merely redistributing existing resources . . . [and] to pursue domestic adjustment strategies that, in cooperation with organized economic groups, upgrade or transform the industrial economy.[115]

In many ways, this could be a description of developments during the Labor years. The aim of the Labor Government's policy strategy was to transform Australian industry away from uncompetitive sectors like textiles, clothing and footwear. The 'decline' of the industry sector was not an unfortunate by-product of the strategy and thus a transformative failure - it was the aim of policy. Whether this was the best strategy is another issue. Although the success of many of Labor's policies is open to debate, it

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114 W. Rand Smith, "International Economy and State Strategies: Recent Work in Comparative Political Economy," *Comparative Politics*, April, 1993, p. 368.

115 Linda Weiss, *The Myth of the Powerless State: Governing the Economy in a Global Era*, Cambridge, Polity Press, 1998, pp. 4-5.

did, as the following chapters will reveal, effectively transform the Australian political economy away from the long-standing and resilient protectionist policy structure.

The shift to economic liberalism should not be seen as a process of "ungoverning the economy."[116] Such a description obscures the fact that a greater role for the market is still a form of regulation that has to be structured and enforced by the state. Even with an economic liberal policy structure, the state can only remove itself so far from economic processes because without appropriate regulatory structures markets cannot continue to function. This applies at both the national and international level and constitutes, as chapter one pointed out, a possible constraint on continuing globalisation. Markets, as Boyer and Drache indicate, "have to be socially constructed via a set of agreed on or imposed rules of the game."[117] Underpinning market transactions is a complex set of political, legal and cultural factors that may be obscured by rhetoric about free markets and *laissez faire*.[118] To avoid damaging opportunism and political reaction, states must continue to regulate economic processes and construct 'balances' between economic and political pressures and between international and domestic priorities. The shift to the 'market' remains a matter of degree and although the tools and priorities of economic management have changed, the need to manage economies has not disappeared.[119] The shift towards economic liberalism should be considered as a change in the mode of capitalist regulation, rather than as a shift towards deregulation or as a return to the 'logic of the (global) market'. As Block explains:

> Recognition that economic logics by themselves do not aggregate into coherent wholes deepens the importance of the insight that the economy is never fully autonomous. It suggests that what we generally call 'the economy' is always the product of a combination of state action and the logic of individual or institutional economic actors. It follows as well that crises or dysfunction in the 'economy' cannot be traced solely to interference with economic logics, because these economic logics have never - by themselves - produced a coherently functioning whole. Rather one would expect to find one root of economic crises in the particular fit between economic logics and state action. . . . The issue is the specific structure of state intervention.[120]

The state continues to regulate the intersections between the domestic and world political economies. Although it is possible to argue that states have been pressured to

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116 Stephen Bell, *Ungoverning the Economy: The Political Economy of Australian Economic Policy*, Melbourne, Oxford University Press, 1997. What is meant by the term 'ungoverning', however, is not explicitly explained in the book. Indeed, Bell's argument appears to refute the description.

117 Robert Boyer and Daniel Drache, "Introduction" in Robert Boyer and Daniel Drache (eds), *States Against Markets: The Limits of Globalization*, London, Routledge, 1996, p. 5.

118 Ibid., pp. 5-6. See also Fred Block, *Postindustrial Possibilities: A Critique of Economic Discourse*, Berkeley, University of California Press, 1990, ch. 3.

119 Grahame Thompson, "The Evolution of the Managed Economy in Europe," *Economy and Society*, 21(2), May, 1992.

120 Block, *Revising State Theory*, 1987, p. 176.

embrace economic liberalism by globalisation, pressures for policy change have also come from domestic actors and from within the state itself.

States are unlikely, in democracies at least, to embark on policy changes that have no support. Indeed Gourevitch asserts that:

> the autonomy of the state has a social base: for state autonomy to exist for specific purposes, the state must be able to obtain support, of differing kinds, from societal actors. The strong state is the one with the political support to be strong, a state with the compliance or enthusiasm of at least some societal actors that support the actions of strength. When that support disappears, so does state strength.[121]

Societal support - the social base of autonomy - is, however, not a given or static phenomenon: societal actors can be persuaded and coerced into shifting allegiances and altering perceptions of interests. Dominant public discourses can help to marginalise alternative ideas and interests and changing policy structures change the distribution of advantages and disadvantages. Comprehensive policy change may make it difficult to return to previous structures and affected societal interests will need to adjust to changed circumstances.

States are situated, Underhill points out, "between domestic and international society" and governments must manage the constraints imposed by both domains and develop the state's autonomy wherever possible.[122] Different political structures, especially electoral systems, will have a significant effect on the ability of policy-makers to change policy directions. Majority government and longer terms of office may enhance the state's ability to act against particular societal interests. The delegation of responsibility for monetary policy to independent central banks may restrict the discretion of elected governments, but it enhances overall state autonomy from particular societal pressures. International trade and investment agreements have a similar effect, allowing governments to argue that preferred policy directions are mandated by 'rules' that are in the interests of the nation state as a whole. Such policy restriction has helped to enforce an acceptance of externally-led adjustment among domestic economic actors and populations. Halliday argues that "participation in the international realm enhances and strengthens states," and "enables them to act more independently of the societies they rule."[123] But it is not society as a whole from which states seek independence or autonomy, rather it is from particular sections of society.

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121 Gourevitch, *Politics in Hard Times*, p. 258.

122 Underhill, "Conceptualising the Changing Global Order." Hall argues that: "Those who seek to 'bring the state back in' should not simultaneously read the political system [political parties and interest intermediaries] out of their analyses." Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," *Comparative Politics*, April, 1993, p. 288.

123 Halliday, *Rethinking International Relations*, p. 81.

Governments have increasingly sought to adjust to the challenges of globalisation by enhancing state autonomy within the domestic political economy.

Although governments sometimes rail against the unfairness and irrationalities of the world political economy, it has provided opportunities for political and economic elites to argue that particular domestic adjustments are unavoidable. As Campanella suggests:

> Global as well as domestic-led turbulence . . . could offer governments the chance to adopt effective and affirmative policies. Policy-makers could manage domestic constraints so as to benefit from the international arena; or the reverse could be true - they could use international constraints . . . to influence the domestic arena . . . so as to implement severe fiscal and budgetary policies.[124]

Despite the turn to 'constitutional' devices and coercive policy changes that force adjustment, governments continue to face demands for protection and compensation and efforts to educate populations about the dictates of the global economy, therefore, remain pivotal to economic liberal governance. The invocation of global imperatives has been a pivotal component of state attempts to restructure *both* domestic economies *and* societal expectations. Although globalisation has undoubtedly increased pressures on the policy-making process, arguments about policy constraints and global imperatives still need to be seen as claims with political intent and as integral elements of domestic political struggles to shape regulatory structures and distributive mechanisms.

Stressing the need to think of policy autonomy in a more complex, situational and relative way is not to suggest that governments and the states they head have a newly found freedom of action. Increased openness to the world political economy places pressures and constraints on governments and the wider state as well as domestic society. The question whether resort to the market - and more particularly, the world political economy - provides long-term policy flexibility is debatable. An economic liberal policy structure may provide a solution to competing political pressures on the state for protective intervention and redistribution, but the result of such policies is still the limitation of political choice. Longer-term policy flexibility would mean that the state would be able to freely shift between regulatory mechanisms, depending on circumstances. The question remains, then, as to what sort of longer-term autonomy is entailed by the turn to more market-based regulation.

Into the future, states may face problems if domestic pressures intensify and policy options are constrained by the continuing globalisation that has been encouraged by the

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124 Miriam L. Campanella, "The Effects of Globalization and Turbulence on Policy-Making Processes," *Government and Opposition*, 28(2) Spring 1993, p. 196.

shift to economic liberalism. The imposition or restoration of market forces will not settle regulatory struggles for all time. The art of government will continue to involve trade-offs between economic and political pressures and between the domestic and international domains. Although the shift to economic liberalism has increased the extent to which the world political economy shapes domestic political economies, the possibility remains that the balance could shift once again. Governments continue to be reliant on majority societal support and the possibility that alternative coalitions against globalisation and economic liberalism could be constructed remains. In different circumstances, globalisation could be used to argue that countries must increase their insulation from the damaging and unfair effects of the world political economy. Certain groups within nation-states will continue to be amenable to alternative rhetorics and policies of protection, compensation and strategic intervention. The failure of states to protect and compensate the losers from policy shifts to globalisation and marketisation may lead to pressures for substantial disengagement from the world political economy, regardless of whether such moves would be disastrous for individual countries and the world political economy. It also remains possible that policy-makers will change their minds, whether through societal pressures or autonomously, about the benefits of globalisation and economic liberalism.

Conclusion

This chapter has argued that states are "janus-faced, standing at the intersection of transnational and domestic processes."[125] With the breakdown of the post-war international economic order and the end of sustained growth, economic pressures on states increased markedly in the context of expanded societal expectations about the state's role in underpinning improvements in living standards and providing support for domestic economic actors. In response, governments from both the Left and Right have turned, to varying degrees and some sooner than others, to economic liberal strategies of governance that have sought to restructure both domestic political economies and societal expectations about the role of the state. Although globalisation is often said to have weakened the state, this chapter has argued that governments have embraced globalisation to cope with often competing internal and external pressures on the state. Rather than states simply reacting to globalisation, attempts to develop new policy structures have been an integral part of the globalisation process itself. Given these changes, conceptions of policy autonomy and capacity also need to change. The

125 Evans, Rueschemeyer and Skocpol, "On the Road Toward a More Adequate Understanding of the State," p. 350.

locus of state policy autonomy has shifted from the world political economy to the domestic political economy and through governmental persuasion and the embrace of economic liberal policies, states have attempted to rebalance internal and external constraints by further subordinating (domestic) politics to (international) economics.

Before analysing these themes in relation to the Hawke and Keating Governments, the next chapter provides an historical analysis of Australia's position in the world political economy and the comprehensive role of the state in supporting and protecting economic activity and society, a strategy brought into question by the declining utility of Australia's economic structure in changing world political economy.

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Chapter Four

Australia in the World Political Economy

Australian Economic Vulnerability

Since white settlement and long before globalisation dominated the vocabularies of policy-makers and commentators, Australia's fate has been comprehensively shaped by the world political economy. Reliant from its beginnings on foreign supplies of labour and capital and on far away foreign markets for its exported products, Australia, it could be said, was born vulnerable. Given the size of the Australian continent and the need for comprehensive infrastructure development, the role of the state was integral to the establishment of a viable economy and to society itself. Butlin, Barnard and Pincus have described the activities of the various colonial governments in the nineteenth century as "colonial socialism."[1] Well before them, Eggleston and Hancock, criticised the extent of the state activity they designated "state socialism."[2] As Hancock observed in 1930: "Australian democracy has come to look upon the state as a vast public utility, whose duty is to provide the greatest happiness for the greatest number."[3]

In the early years of Federation, influenced by the growing power of labour and the reassertion of vulnerability in the shape of depression, the state set itself on a protectionist path which was to shape the Australian political economy for most of the twentieth century. Francis Castles suggests that there were four main elements to the protectionist policy structure, what he calls a strategy of "domestic defence": protection of manufacturing industry, the conciliation and arbitration of industrial disputes, the control of immigration and a residual system of income maintenance for those outside the labour market.[4] Protectionism underpinned the creation of a manufacturing sector of greater size and importance than would have been possible if Australia had adopted a policy of free trade, providing a fundamental source of employment and helping to establish a more diversified capitalist economy.[5] High wages and controlled white immigration provided a compromise between the demands of labour and the desires for a larger population. High levels of employment meant that a residual welfare state was

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1 N. G. Butlin, A. Barnard and J. J. Pincus, *Government and Capitalism: Public and Private Choice in Twentieth Century Australia*, Sydney, Allen & Unwin, 1982, ch. 2.
2 W. K. Hancock. *Australia*, London, Ernst Benn, 1930, ch. vii.
3 Ibid., p. 72.
4 Francis Castles, *Australian Public Policy and Economic Vulnerability*, Sydney, Allen & Unwin, 1988, p. 93.
5 Hugh Stretton, *Political Essays*, Melbourne, Georgian House, 1987, p. 37.

deemed sufficient to complete the protectionist policy structure. Kelly argues that Imperial benevolence supplemented the overarching policy structure he calls the "Australian settlement."[6] Dependence on Britain and Australia's position as a functional component of the British economy, however, both contributed to and hindered economic development in Australia. As Cochrane argues, before World War II Australia "was able to break into the industrial ranks but unable to break free of its colonial or dependent origins."[7]

Through World War I, the Great Depression, World War II, post-war reconstruction and prosperity, the protectionist policy structure was an article of faith for most Australians. Both good times and bad reinforced the perception that "the greatest happiness" was best provided for by the state's consolidation of protectionism. From the mid-1960s, however, the various elements of the policy structure began to unravel: the White Australia Policy was increasingly seen as a vestigial and embarrassing relic of colonialism and racial superiority, Britain abandoned Australia for the European Economic Community, tariff protectionism was gradually attacked by economists as an inefficient and inappropriate tool for industrial development, and the industrial relations and welfare systems were attacked by both the Right and Left as either too restrictive and costly or not comprehensive enough. As Australia entered the 1970s, policy-makers were confronted by the problem that important elements of the protectionist policy structure were reliant, to a considerable extent, on Australia's commodity wealth which was declining in relative value. They also, however, were faced with the fact that protectionism continued to attract widespread societal support.

This chapter outlines Australia's participation and position in the world political economy and, in particular, the dominance of the protectionist policy response to economic vulnerability throughout most of Australia's history. The chapter concludes with a review of the dire economic situation facing the newly-elected Labor Government in 1983.

Before the First World War

In the late eighteenth century Australia was established as a British penal colony and was gradually developed, Pinkstone asserts, as a "functional component of the British

6 Paul Kelly, *The End of Certainty*, Second Edition, Sydney, Allen & Unwin, 1994.
7 Peter Cochrane, *Industrialization and Dependence: Australia's Road to Economic Development*, Brisbane, University of Queensland Press, 1980, p. 3.

centered world economy."[8] The role of the state was pivotal from the beginning as Butlin, Barnard and Pincus point out: "As landowners, landsellers, investors, borrowers, business operators, employers and managers of immigration programmes, Australian governments were prominent in the late nineteenth century as direct actors in all the implied markets."[9]

The establishment of a natural resource-based economy in the first half of the nineteenth century through state support for private initiative, set the scene for Australia's future economic development. In particular, the development of the wool industry provided Australia with the export income necessary for increasing the capacity to import and service developmental loans. From the first pastoral boom in the 1820s and 1830s, through the gold rushes of the 1850s, Australia's natural resource comparative advantage was a significant factor in the generation of export wealth. Together, wool and gold accounted for between 55 and 75 per cent of Australia's exports before 1913. After World War I, gold declined in importance, "whereas wool continued to dominate Australia's export trade right up to the 1960s when it still accounted for between one-third and one-quarter of the country's export trade by value."[10]

The reliance on Britain for capital, labour and markets meant that Australia's economic fortune was substantially determined abroad. During the boom times between 1861 and 1891, when GDP grew at an annual rate of 4.9 per cent (1.5 per cent per capita), such vulnerability was disguised, but the depression of the 1890s revealed the extent to which domestic economic problems could be exacerbated by external developments. The substantial decline in the demand and price of commodities, particularly wheat and wool, and the decline in foreign sources of capital, intensified the problems caused by over-expansion in the wool industry, property speculation, banking collapse and over-investment by colonial governments in infrastructure. In the early years of the twentieth century the recovery that had begun in the late 1890s was slowed by severe drought.[11]

The depression of the 1890s was particularly severe and demonstrated Australia's economic vulnerability and the precariousness of the economic and social gains of the

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8 Brian Pinkstone, *Global Connections: A History of the Exports and the Australian Economy*, Canberra, AGPS, 1992, p. 2.

9 Butlin, Barnard and Pincus, *Government and Capitalism*, pp. 10-11.

10 A. G. Kenwood, *Australian Economic Institutions Since Federation*, Melbourne, Oxford University Press, 1995, p. 16.

11 Rodney Maddock and Ian W. McLean, "The Australian Economy in the Very Long Run" in Rodney Maddock and Ian W. McLean (eds), *The Australian Economy in the Long Run*, Melbourne, Cambridge University Press, 1987, p. 11-12; Kenwood, *Australian Economic Institutions Since Federation*, p. 3.

1880s. Despite the economic downturn, the view remained that Australia was "a fundamentally prosperous economy."[12] This assessment was based on the considerable wealth generated by the long boom between 1861 and 1891. According to Castles, in their attempts to establish the policy principles for the new Federation, policy-makers:

> set out to defend the economic structure as it presently existed, not so much by ensuring the conditions of future economic growth, as in the smaller countries of Europe, but rather by offering all major economic sectors institutional guarantees that the economic prosperity that they now enjoyed, or rather had enjoyed before the onset of the depression, would be the first priority of public policy.[13]

The defeat of the strikes of the 1890s by the combined forces of the state and business (both protectionists and free traders) made the labour movement's industrial weakness and the need for political representation abundantly clear.[14] The growing strength of the Australian Labor Party could not be ignored by the existing political parties and the challenge pushed more liberal politicians and some sections of business to embrace a strategy of gradual change. Gradual reform was seen as preferable to the growing possibility of a radical restructuring of society by the forces of unappeased labour. Alfred Deakin, the Protectionist Party leader and Prime Minister, argued that state intervention was "the sword to slay the ogre of class war."[15] The setting of the basic wage in the Harvester judgement of 1907 by the Federal Arbitration Court, under Justice H.B. Higgins, undoubtedly acted to satisfy the demands of many within the labour movement.

The division of non-Labor parties before 1909 (when the Fusion Party was established) reflected a breach between various sections of business over whether free trade or protectionism was the most appropriate policy strategy for Australia. Notwithstanding significant free trade forces, most notably in New South Wales, the constitutional settlement of 1901 meant that the Commonwealth had to distribute 75 per cent of tariff revenue along with any surpluses to the states until 1910. The levying of tariffs became an exclusive power of the Commonwealth under section 90 of the constitution and as tariffs were the major source of revenue, their initial continuation was essential.[16] As Deakin proclaimed: "Free Trade in its familiar sense [was], indeed, impossible in Australia," and there could be "no escape from a heavy tariff."[17] The initial dual

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12 Castles, *Australian Public Policy and Economic Vulnerability*, p. 93.
13 Ibid.
14 W. A. Howard, "Trade Unions and the Arbitration System" in Brian Head (ed), *State and Economy in Australia*, Melbourne, Oxford University Press, 1983, p. 239.
15 *Commonwealth Parliamentary Debates*, cited in Patricia Tulloch, "The Welfare State and Social Policy" in Brian Head (ed), *State and Economy in Australia*, Melbourne, Oxford University Press, 1983, p. 258.
16 Peter D. Groenewegen, "The Political Economy of Federalism" in Brian Head (ed), *State and Economy in Australia*, Melbourne, Oxford University Press, 1983, pp. 173-4.
17 Deakin, cited in Ann Capling and Brian Galligan, *Beyond the Protective State*, Melbourne, Cambridge University Press, 1992, p. 74.

purpose of tariffs, for revenue and industry protection, was joined by another motive during the first decade of the twentieth century - the regulation of working conditions. During Deakin's second Protectionist Ministry from 1905 to 1908 the 'new protection' "coupled protection with enhanced wages and conditions for workers." The Excise Tariff Act of 1907 imposed a tax on agricultural machinery produced in Australia unless manufacturers could show that they were paying 'fair and reasonable' wages.[18] Although the act was later declared unconstitutional by the High Court, the legislation reveals the importance the state placed on encouraging employers to provide workers and their families with adequate living standards.

The alliance between the Protectionists and the Labour Party was pivotal in the initial establishment of the protectionist policy structure and by the end of the first decade of the twentieth century, the principle of protection was fully accepted as federal policy.[19] Castles argues that the 'new protection' was the occasion of Australia's historic policy compromise between capital and labour that was to shape Australia's subsequent political economic development.[20] The notion of historic compromise is essential for understanding how both the labour movement and a fraction of capital could come to an agreement, via the guiding hand of the state, that at least partially accommodated their various desires for profit and prosperity.

The issue of immigration is also particularly important in understanding the development of protectionism. Fears about 'the yellow hordes' of Asia 'swooping' down and overwhelming the small, mainly British population, meant that population growth was deemed essential by politicians and citizens alike. The White Australia Policy was enshrined in the Federal Labor Party Programme of 1905, and aimed to establish a compromise between high wages and a controlled expansion of the population. Workers saw the arrival of cheap non-Anglo-Celtic labour as a threat to their level of wages and unions acted to restrict the supply of labour in particular trades and to use labour shortages "in their campaigns over wages and conditions."[21] As Hancock contended in the 1930s:

> The policy of White Australia is the indispensable condition of every other Australian policy. Embodied in the Immigration Restriction Act, 1901-1925, its intention and significance are exceedingly easy to understand once they have been freed from the rhetoric and special pleading in which they have been enveloped. During the debates of 1901, the rhetoricians declared that it would be unfair for a 'nation of yesterday' (China) to interfere with the 'noblest race upon this sphere' (the Australians). They even doubted whether some European nations, such as the Italians, were 'civilised in the

18 Capling and Galligan, *Beyond the Protective State*, p. 76.
19 Peter Ewer, Winton Higgins and Anne Stevens, *Unions and the Future of Australian Manufacturing*, Sydney, Allen & Unwin, 1987, p. 7.
20 Castles, *Australian Public Policy and Economic Vulnerability*, p. 93.
21 Ewer, Higgins and Stevens, *Unions and the Future of Australian Manufacturing*, p. 8.

> ordinary Australian sense'. However, their immediate concern was with black men and yellow men.[22]

Higher wages paid in the protected industries provided an additional incentive for British migrants. Protectionism and immigration were self-reinforcing, in that controlled increases in population were seen as providing domestic markets for rural and manufacturing goods, whilst an enlarged population necessitated increased employment opportunities, thus making a larger manufacturing sector vital. Or, as Prime Minister, Stanley M. Bruce, put it in 1926: "We cannot develop unless we have more population, and we cannot absorb more migrants unless we develop."[23] In the 1920s, immigration policy was captured by the phrase "populate or perish."

'Home consumption pricing', wherein higher prices were maintained in the domestic market than in export markets, was also established in the first decade of Federation. Indeed, Queensland only agreed to join the Commonwealth if the home market for sugar was guaranteed. Industry protection and the White Australia Policy were inextricably linked as the Queensland sugar industry demanded financial assistance in return for abandoning Melanesian labourers in favour of whites. "The principle of a high domestic price for farm products as compensation for a wage cost disadvantage," Kenwood argues, "closely resembled the main argument being advanced for tariff protection for manufacturers."[24] In subsequent years, the principle of home consumption pricing was extended to wheat, butter, rice, dried fruits and eggs. Throughout the twentieth century, governments would build upon this initial agricultural protectionism, assisting rural industries by price control and stabilisation through the regulation of output and the restriction of imports.[25]

In the period from 1900 to 1914, rising demand for Australia's exports underpinned economic growth, the repayment of foreign debt and rising living standards.[26] A comparative advantage in resources meant that during this period Australia's economic structure was advantageous for a renewal of prosperity. Australia maintained a trade surplus for most of the years between 1900 and the outbreak of war. Interestingly, capital flowed out of the economy to repay the debts incurred in the 1880s. Lougheed argues that during this period:

> Australia was probably nearer the heart of the world trading system than at any other time and benefited considerably by being able to take full advantage of her comparative advantage in land intensive products because of the relatively favourable prices offered

22 Hancock, *Australia*, pp. 77-78.
23 Castles, *Australian Public Policy and Economic Vulnerability*, pp. 101-102.
24 Kenwood, *Australian Economic Institutions Since Federation*, p. 49.
25 Ibid.
26 Alan L. Lougheed, *Australia and the World Economy*, Melbourne, McPhee Gribble/Penguin, 1988, pp. 10-15.

> for such products in the world markets. . . . [G]iven the favourable conditions persisting in the outside world, Australia was able to experience prosperity based predominantly on her own resources, productive effort and expertise.[27]

Before World War I, state and federal governments were actively involved in diversifying the economy. Shifts towards manufacturing, mining, services and non-pastoral land use dominated government efforts. Manufacturing was based around rural products - foodstuffs, textiles, leather goods, stone products - and involved little processing. Although its growth outstripped that of the rural sector, manufacturing, particularly complex manufacturing, was not "accepted as a dominant growth prospect."[28] However, the labour-intensive nature of manufacturing offered the possibility of increased employment opportunities in the future.

The Interwar Years

World War I was important in entrenching the protectionist policy structure because it curtailed imports and meant Australian producers had almost exclusive control of local markets. Many new industries were created, such as the manufacturing of electrical goods, machinery, metal products, chemicals, and rubber goods.[29] The development of new industries during the war and immediately after, as well as the conversion of many wartime factories to peacetime uses, led to further demands for protection as international trade gradually recovered after the end of the war. The Greene Tariff of 1920 was initiated to protect both new and old manufacturing industries and wages. J. M. Greene, the Nationalist Party Minister for Trade and Customs, insisted that the new tariff:

> would protect industries born during the war, . . . encourage others that are desirable, and diversify and extend existing ones. . . . We shall protect established Australian industries, and develop and foster new enterprises. Whilst giving adequate protection by means of an effective Customs Tariff, we shall arrange that the workers in all industries will get their full share of the benefits of protection.[30]

The utilisation of protection had significant appeal: it was seen as assisting the economic development of Australia and providing profits, whilst giving (male) workers a 'fair and reasonable' wage.

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27 Ibid., p. 15.
28 Butlin, Barnard and Pincus, *Government and Capitalism*, pp. 53 & 60.
29 Ibid., p. 76.
30 Greene, cited in David Pope, "Population and Australian Economic Development 1900-1930" in Rodney Maddock and Ian W. McLean (eds), *The Australian Economy in the Long Run*, Melbourne, Cambridge University Press, 1987, pp. 53-54.

The Nationalist Party created the Tariff Board in 1921, a formally independent advisory body on tariff protection, "to act as a buffer" between the government and the competing demands of pro- and anti-protectionist forces.[31] The creation of an ostensibly independent statutory authority enabled the Government to appear to be removed from the decision-making process, if it so desired. At its inception the Tariff Board had a penchant for protectionism. As one of the members of the Tariff Board remarked in 1926:

> Although we are a fact-finding and non-partisan body, our facts are sought with the object of improving the protectionist system our Country has adopted and not with the idea of improving it out of existence. We are non-partisan because we have been selected by a Government of a country, 95% of whose representatives are protectionists.[32]

Despite such assertions, the Board became alarmed in the late 1920s at the development of a "vicious circle of increases in tariffs and arbitrated wages."[33] At the same time, the Nationalist-Country Party Coalition government of S. M. Bruce was under pressure from rural interests to reduce protectionism. In 1929, it responded by setting up an inquiry into the use of tariffs, headed by the economist J. B. Brigden. The report of the inquiry, *The Australian Tariff*, turned out to be a "comprehensive manifesto for moderate protectionism," and contributed to the continuing acceptance of protection by asserting that, although abuses did occur, with careful administration the tariff could be used properly.[34] The Report's economic rationale for the tariff was that protectionism made it "possible for Australia to maintain a larger population than could have been maintained under free trade at the existing standard of living."[35] Writing in 1930, Hancock explained that:

> Protection has been more than a policy: it has been a faith and a dogma. Its critics, during the second decade of the twentieth century, dwindled into a despised and detested sect suspected of nursing an anti-national heresy. For protection is interwoven with almost every strand of Australia's democratic nationalism. It is a policy of power; it promises to be a policy of plenty. It promises to the Australians, not only the industries which are necessary in time of war, but also the enjoyments which are desirable in a time of peace. The very word appeals to them, because they believe in their hearts that both their enjoyments and existence need to be protected against extraordinary dangers. . . . Behind this national fervour is the pressure of particular interests.[36]

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31 Alf Rattigan, *Industry Assistance: The Inside Story*, Melbourne, Melbourne University Press, 1986, p. 3.
32 Cited in ibid., p. 3.
33 F. G. Davidson, "Brigden, Vernon, Rattigan, Jackson" in John Nieuwenhuysen and Peter Drake (eds), *Australian Economic Policy*, Melbourne, Melbourne University Press, 1980, p. 146.
34 Leon Glezer, *Tariff Politics*, Melbourne, Melbourne University Press, 1982, pp. 9-11.
35 W. M. Corden, "Tariff Policy" in *Australian Economic Policy Discussion*, Melbourne, Melbourne University Press, 1968, pp. 23-4.
36 Hancock, *Australia*, p. 89.

Alongside "private interests" and "public opinion," Hancock asserted that the state itself was a major force for protection as it continued to be reliant on tariffs for half of its revenue.[37]

The retreat by many countries to inward looking policies during the 1920s and the world depression of early 1930s once again exposed Australia's dependence on primary commodity exports and its reliance on foreign capital. What had been advantageous in the years before the war proved to be less so in the interwar years. After initially favourable economic circumstances in the years following the war, falling demand and prices for Australian exports in the mid-to-late 1920s were caused by rising agricultural protectionism, falling population in Europe and surplus production. As noted in chapter two, world trade expanded slowly after World War I and then decreased substantially in the early 1930s. As Lougheed points out: "Between 1929 and 1932, world imports fell by 61 per cent in value and 27 per cent in volume. Primary producers were the hardest hit as their prices for their exports fell much more than those of manufactures - by over 60 per cent (and 75 per cent from 1925 to 1932)."[38] Falling demand for Australian exports was accompanied by increased recourse to foreign borrowing. Debt servicing as a percentage of export income grew steadily during the 1920s, reaching a peak of 50 per cent in 1931 and remaining over 30 per cent for most of the 1930s. The effect of the world depression was felt particularly acutely in Australia as access to the long-term borrowings needed to service existing debts was substantially restricted.[39]

Table 10 shows the almost continuous rise of the tariff from the early part of the century. The slide into depression led to a large increase in protection with J. H. Scullin, the Labor Prime Minister, bypassing the Tariff Board with a series of tariff rises. The British preferential tariff went as high as 50 per cent (value-added) by 1931-32, an increase of 81 per cent on 1928-29. Combined with a 25 per cent devaluation of the Australian pound against sterling, the competitive position of manufacturers was substantially strengthened against imports.[40] Although tariff levels were lowered after the worst of the depression was over, the depression reconfirmed the utility of the protectionist policy structure. By the outbreak of war in 1939 there had been partial recovery in the economy, but unemployment was still high compared to earlier periods.

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37 Ibid., p. 90.
38 Lougheed, *Australia and the World Economy*, p. 26.
39 Ibid., pp. 20-22 & 27-29.
40 Kym Anderson and Ross Garnaut, "The Political Economy of Manufacturing Protection in Australia" in Chris Findlay and Ross Garnaut (eds), *The Political Economy of Manufacturing Protection*, Sydney, Allen & Unwin, 1986, p. 161.

Table 10: Indices of Australia's Manufacturing Tariff Levels 1919-20 = 100

	British Preferential Tariff		General Tariff	
Year	All Items	All items excl. food, beverages and tobacco	All Items	All Items excl. food, beverages and tobacco
1906-07	95	70	82	57
1911-12	96	75	83	61
1913-14	108	88	99	78
1918-19	88	78	84	71
1923-24	108	107	110	107
1928-29	125	122	126	118
1929-30	177	166	173	155
1930-31	222	204	202	181
1931-32	238	221	217	194
1932-33	228	212	225	201
1935-36	169	141	215	185
1938-39	160	133	212	182

Source: Brian Pinkstone, *Global Connections: A History of Exports and the Australian Economy*, Canberra, AGPS, 1992, p. 361.

Further agricultural diversification occurred in the interwar years, especially through the 'closer settlement' schemes for returning servicemen and British migrants. Financial assistance was given to producers of sugar, wine, meat, tobacco, rice, and many other rural products. In the main, the expansion of the agricultural sector ended when export prices collapsed in 1927, although wheat cultivation expanded until 1930-31 reaching a level not surpassed until the mid-1960s. After the onset of the Depression, assistance to farmers increased significantly and the agricultural export sector also benefited from Australia's preferential access to the British market.[41]

The Long Boom and Protected Prosperity

During World War II, Labor Prime Minister, John Curtin, signalled a strategic reorientation of Australian foreign policy by declaring that "Australia looks to America, free of any pangs as to our traditional links or kinship with United Kingdom."[42] In joining the International Monetary Fund, World Bank and signing the General Agreement on Tariffs and Trade, Catley argues that Australia "moved closer to the American sphere in international economic relations."[43] But in the immediate post-war period Australia remained in the sterling currency bloc and Australia's exports to the

41 Kenwood, *Australian Economic Institutions Since Federation*, p. 45; E. A. Boehm, *Twentieth Century Economic Development in Australia*, Third Edition, Melbourne, Longman Cheshire, 1993, p. 104.

42 Roger J. Bell, *Unequal Allies: Australian-American Relations and the Pacific War*, Melbourne, Melbourne University Press, 1977, p. 134.

43 Bob Catley, *Globalising Australian Capitalism*, Melbourne, Cambridge University Press, 1996, p. 56.

US were hampered by US tariffs and quotas. Australian policy was also more in line with Britain in its commitment to full employment.

Fear of mass unemployment was one of the most important legacies of the Great Depression and the need to maintain full employment dominated Australian policy concerns in the 1940s.[44] As argued in chapter three, World War II showed how state planning could deliver beneficial economic results: full employment with low inflation. As the head of the Department of Post-War Reconstruction, H. C. Coombs, stated in 1944: "It did not take us long to discover that the working of the economic system was something within our capacity to control."[45] The desires for continuing full employment were enshrined in the 1945 *White Paper on Full Employment*, which stated in its opening sentence that: "Full employment is a fundamental aim of the Commonwealth government."[46] As Johnson suggests, the White Paper provided a rationale "for full-employment, social welfare, and an enlarged public sector" which "would benefit the community as a whole, including sections of private business."[47] Though the White Paper signalled a shift in macroeconomic management away from 'sound finance' to Keynesian demand management, the faith in the protectionist policy structure remained constant. The war also allowed for an increase in Commonwealth power: the Reserve Bank powers entrenched in the *Commonwealth Bank Act 1945* and the *Banking Act 1945*; and, most notably, the Uniform Tax Agreement of 1942, which transferred income taxing powers to the Commonwealth.[48]

Both the Curtin and Chifley Labor Governments were supportive of the manufacturing sector, as its development and concomitant labour-intensive needs accorded well with Labor's aim to achieve full employment. The war had provided an impetus to the development of the manufacturing sector as supply lines were cut and wartime needs accelerated industrial development. Although manufacturing had benefited enormously from expansion and re-equipment with US technology during the war, efficiency improvements were not maintained and the sector became increasingly labour intensive and inwardly focused over the following years. Notwithstanding its inward-orientation, or perhaps because of it, manufacturing growth was extensive and between 1934 and 1950, the sector's share of GDP increased from 15.5 per cent to 25.2 per cent.[49] Despite the increased power of the Federal Government brought about by the war and

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44 Rodney Maddock, "The Long Boom 1940-1970" in Rodney Maddock and Ian W. McLean (eds), *The Australian Economy in the Long Run*, Melbourne, Cambridge University Press, 1987, p. 93.
45 Coombs, cited in Barrie Dyster and David Meredith, *Australia in the International Economy in the Twentieth Century*, Melboune, Cambridge University Press, 1994, p. 174.
46 Cited in ibid., p. 182.
47 Carol Johnson, *The Labor Legacy*, Sydney, Allen & Unwin, 1989, p. 17.
48 Butlin, Barnard and Pincus, *Government and Capitalism*, p. 109.
49 Stephen Bell, *Australian Manufacturing and the State: The Politics of Industry Policy in Australia*, Melbourne, Cambridge University Press, 1993, p. 39.

the Labor Government's determination to build a strong manufacturing sector, Bell argues that:

> efforts to extend the reach of state intervention down to the detailed administration of the manufacturing sector's development in terms of regulating investment flows, capital allocations and industry structure were strongly resisted by manufacturers and others seeking to limit the role of the state.[50]

Indeed, Labor's maintenance of wartime controls and attempts to increase Federal powers undoubtedly contributed to its loss of power in 1949. Most important was the failed attempt to nationalise the banks in order to control the provision of development capital. Bank nationalisation proved to be remarkably unpopular and generated widespread and active opposition.[51]

The legacy of Japanese expansionism and the growing fear of Asian communism reinforced arguments for a substantial increase in Australia's population. Immigration was extensive in the post-war period. Between 1947 and 1951, Australia received a net inflow of just under half a million people and a little over one million between 1945 and 1959.[52] Once again connections were made between industry protection and population growth. As John McEwen, Country Party leader, argued in 1950: "Our very security requires that we have population carrying industries and the secondary industries are the principal vehicles of this."[53] Large scale immigration, therefore, provided a further rationale for the continuation of protection. Post-war immigration continued to take place under the rubric of White Australia which was officially defined by the phrase: "In pursuance of the established policy, the general practice is not to permit Asiatics or other coloured persons to enter Australia for the purpose of settling permanently."[54]

By the late 1940s, Australia once again faced a favourable world economic environment. The terms of trade improved markedly as the Korean War sparked massive US demand for Australian wool. In 1951-52, however, wool prices collapsed and Australia was flooded with imports. Despite the 'boom and bust', Pinkstone argues that:

> the postwar export boom produced clear benefits for the Australian economy as a whole. The gains from the postwar improvement in the terms of trade combined with the larger export volumes greatly increased the country's capacity to import, and given that producer goods accounted for around 80 per cent of visible imports in the late 1940s this

50 Ibid., p. 48.
51 A. L. May, *The Battle for the Banks*, Sydney, Sydney University Press, 1968.
52 Dyster and Meredith, *Australia in the International Economy*, pp. 193 & 210.
53 McEwen, cited in Capling and Galligan, *Beyond the Protective State*, p. 104.
54 Dyster and Meredith, *Australia in the International Economy*, p. 210.

> considerably assisted the process of urban and industrial expansion which was taking place.[55]

In the late 1940s and early 1950s 'stabilisation plans' were developed for the rural industries. These plans extended earlier 'home consumption price' structures with the overriding aim to regulate the incomes of farmers. Such schemes meant that, from the 1950s to the 1970s, consumers and tax payers bore the costs and buttressed the incomes of many agricultural industries. Given Australia's dependence on rural exports (87 per cent of exports were rural in the 1950s), "it is not surprising," Kenwood notes, "that government was prepared to provide financial assistance and other forms of support for the industry when they were requested."[56] After their establishment in the 1920s, marketing boards grew over time to cover wheat, barley, sorghum, rice, butter, cheese, milk, eggs, cotton, fruit and vegetables, ginger, peanuts, tobacco, meat, fish and sugar. Rural protectionism, as in the manufacturing sector, was entrenched in the post-war period.

The reinvigorated protectionist policy structure did not just apply to manufacturing and weaker rural industries, but to the financial sector as well. Despite the defeat of bank nationalisation, the Menzies Government maintained the tightly regulated financial sector, established during the war and entrenched in the Acts of 1945. The financial sector was subject to a high degree of direction from the Reserve Bank, which directly controlled bank liquidity through special accounts, statutory reserve deposits, and the liquid assets and government securities convention.[57] In addition to efforts to control liquidity, interest rates were regulated, loans were subject to both quantity and quality restrictions, markets were segmented, housing loans were subsidised, access to international money markets by Australian companies was heavily regulated and foreign banks were not allowed entry into the Australian market.[58] The banks were also subject to a high degree of moral suasion from the Reserve Bank and at times were "asked to lean strongly towards support of borrowings which would aid production rather than add to consumption, and to avoid lending for speculative purposes."[59] Regulation, according to Grenville, involved "a complex set of controls which represented a 'belt and braces' approach to constrain the banks' balance sheets without relying on higher interest rates."[60]

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55 Pinkstone, *Global Connections*, p. 158.
56 Kenwood, *Australian Economic Institutions Since Federation*, p. 44.
57 Ibid., p. 159.
58 Matthew W. Butlin, "Capital Markets" in Maddock and McLean, *The Australian Economy in the Long Run*, p. 243; Catley, *Globalising Australian Capitalism*, p. 58; Butlin, Barnard and Pincus, *Government and Capitalism*, p. 123.
59 Kenwood, *Australian Economic Institutions Since Federation*, p. 161.
60 Stephen Grenville, "The Evolution of Financial Deregulation" in Ian McFarlane (ed), *The Deregulation of Financial Intermediaries*, Sydney, Reserve Bank of Australia, 1991, p. 10.

Developments in the late 1940s and the early 1950s, similar to the experience of the 1920s, reinforced the belief that Australia's traditional export structure was sufficient to ensure continuing prosperity. Australian export weaknesses were submerged by a sustained period of international economic expansion from 1950 to the early 1970s.[61] The world political economy, therefore, provided a conducive environment for the further development of Australia's protectionist policy structure. High levels of growth and high demand for Australian resources boosted export earnings which underpinned the growth of the protected manufacturing sector. Financial restriction allowed greater macroeconomic policy autonomy to foster high levels of economic activity and employment, and a permissive trade regime allowed for the maintenance of tariffs and quotas without retaliation, despite the gradual shift to more liberal trade through the GATT. As the post-war trade system developed, however, Australia's extensive protectionism increasingly came up against the principles of the GATT. Australia had been one of the original 22 signatories, but it did not reduce tariffs on manufacturing as most other developed countries did in response to the various negotiating 'rounds'. As Corden points out: "effectively, Australia opted out of the whole postwar trade liberalisation process."[62] Australian policy-makers railed against the fact that GATT negotiations excluded agricultural trade, using this as a justification for Australia's maintenance of high levels of protection in manufacturing.[63] Despite US pressures and the expansion of world trade, Australian policy-makers continued to believe that Australia had a right to maintain the protective stance they believed was in Australia's best interests. By the early 1970s, Australia, along with New Zealand, had the highest manufacturing tariffs among developed countries.[64]

As revealed in chapter two, the post-war years involved a considerable increase in foreign direct investment in Australia, with most of it until the late 1960s going into manufacturing.[65] Whilst holding considerable reservations about foreign control, the Chifley Labor Government was adamant that foreign investment was necessary for the development of a strong manufacturing base.[66] The Menzies Government also encouraged foreign investment. Arndt describes policy towards foreign investment during the Menzies years as "a policy of the 'open door'."[67] The door, however, was

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61 Lougheed, *Australia and the World Economy*, p. 40.
62 W. Max Corden, *The Road to Reform: Essays on Australian Economic Policy*, Melbourne, Addison-Wesley Longman, 1997, p. 115.
63 Capling and Galligan, *Beyond the Protective State*, p. 110.
64 Ibid., p. 107.
65 H. W. Arndt, "Overseas Borrowing - The New Model" in H.W. Arndt and W. M. Corden (eds), *The Australian Economy*, Melbourne, Cheshire, 1963, p. 436. Arndt notes that the composition of direct investment also changed in this period from mining and agriculture to manufacturing.
66 Johnson, *The Labor Legacy*, pp. 14-27; H. W. Arndt, "Foreign Investment" in John P. Nieuwenhuysen and Peter J. Drake (eds), *Australian Economic Policy*, Melbourne, Melbourne University Press, 1977, p. 133.
67 Arndt, "Foreign Investment," pp. 132-33.

not open to all areas of the economy and restrictions remained in banking, the media and civil aviation.

After the war, foreign capital was attracted to Australia by the opportunities that existed for manufacturing development, especially of consumer durables. Australia turned to the US as a source of capital and technology for the manufacturing sector.[68] This was especially the case in the nascent Australian car industry with the first fully manufactured Australian car, a product of General Motors-Holden, rolling off the assembly line in 1948.[69] Investors were provided with extensive tariff walls and import quotas so that investments were made with the assurance that the market was fixed and competitive pressures minimal. The state offered inducements for investment and did not attempt to exact commitments from manufacturers to reinvest profits so as to ensure modernisation. As Butlin, Barnard and Pincus point out:

> direct Federal (and State) intervention in the initiatives to establish particular important manufacturing projects did more than merely signal Australia as a genial host of foreign capital: it provided the security of public commitment to projects and the assurance of benefits and concessions to private interests.[70]

The failure to bargain investment led to low research and development spending, the use of overseas sources for major contracts and a generally low priority to, and sometimes explicit banning of, exporting by subsidiaries.[71] When the manufacturing sector came under competitive pressures, even at high tariff rates, and as the minerals sector became more attractive as an investment option, investment in manufacturing stagnated.

For most of the Liberal-Country Party Coalition's long hold on power from 1949 to 1972, its industrial strategy was dominated by Deputy Prime Minister and Country Party leader, John McEwen, the Minister for Trade and Industry. Butlin, Barnard and Pincus argue that: "It is part of Australian political mythology that the election of the conservative Federal Government in 1949 restored free enterprise and reintroduced a climate favourable to a free market system."[72] For the senior coalition partner - the Liberal Party - state intervention was not inconsistent with private enterprise. As a policy statement from 1949 maintained: "The Liberal Party leans towards private enterprise, but Liberals believe that private enterprise should function within a

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68 Pinkstone, *Global Connections*, p. 146.
69 Dyster and Meredith, *Australia in the International Economy*, pp. 188-189.
70 Butlin, Barnard and Pincus, *Government and Capitalism*, p. 142.
71 Bell, *Australian Manufacturing and the State*, pp. 34-35.
72 Butlin, Barnard and Pincus, *Government and Capitalism*, p. 140. The authors dub the post-war period with the label: "All the Restrictive Practices Known to Man." From a markedly different perspective McFarlane dubbed the Menzies period, following the economic journalist, Ken Davidson, with the label "Hydra-Head Planning in Australia." Bruce McFarlane, *Economic Policy in Australia: The Case for Reform*, Melbourne, F. W. Cheshire, 1968.

government framework and that certain public utilities - for example, railways, telephones, heat, and light - are in some cases best operated as government enterprises."[73] Or as Simms has put it: "Liberalism did not entail the principled curtailment of state expansion but its 'creative' encouragement."[74]

With a deteriorating balance of payments in the early 1950s, the Menzies Government resorted to quantitative import controls which had the dual effect of protecting industries and correcting the trade imbalance.[75] As Castles argues: "Dutiable imports as a proportion of all imports were at a similar level in the late 1950s as in the late 1930s, but they were now supplemented by a new variation on an old theme, quantitative import restrictions as a means of securing import substitution, a viable balance of payments and full employment."[76] Quotas remained predominant until 1960, after which tariffs once again became the major tool of protection. The removal of quotas brought Australia more in line with the direction of the multilateral trading system, but tariffs were renewed with vigour, especially after the 'credit squeeze' of late 1960 led to the recession of 1961-62. Manufacturers lobbied hard for maintenance of protectionism and McEwen bypassed the more assiduous processes of the Tariff Board for increased tariffs by creating the Special Advisory Authority. This new body was led by a committed protectionist, Frank Meere, who described his attitude to protectionism as "You make it, and I'll protect it."[77]

McEwen "extended and embellished"[78] protectionism and although the revenue aspect of tariffs had lessened in importance with the shift to tax centralisation in 1942, private interests and public opinion continued to support the protectionist policy structure. Both Labor and Liberal Parties supported import-substituting industrialisation which they believed "would reduce Australia's dependence on the traditional export industries as an engine of growth and thus reduce the economy's vulnerability to fluctuations in international commodity markets."[79] Writing in the early 1960s, Karmel and Brunt argued:

> Both Labor and Liberal Parties are protectionist in flavour, although the Liberal Party derives support from both commerce and manufacturing and hence tends to be a little schizophrenic on the question of tariffs. However, since the 1920s the notion of 'protection all round' has become accepted and there seems to be a tacit understanding that manufacturers should be protected by the tariff, workers by basic award wages and

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73 Sol Encel, "The Concept of the State in Australian Politics," *Australian Journal of Politics and History*, 6, 1960, p. 66.
74 Marian Simms, *A Liberal Nation*, Sydney, Hale and Iremonger, 1982, p. 38.
75 Butlin, Barnard and Pincus, *Government and Capitalism*, pp. 111 & 140-141.
76 Castles, *Australian Public Policy and Economic Vulnerability*, p. 138.
77 Cited in Dyster and Meredith, *Australia in the International Economy*, p. 253. See also Bell, *Australian Manufacturing and the State*, p. 31.
78 Capling and Galligan, *Beyond the Protective State*, p. 102.
79 Pinkstone, *Global Connections*, p. 159.

> farmers by marketing and price-stabilisation schemes. The Liberal, Country and Labor Parties all seem to be privy to this understanding.[80]

Whilst this policy consensus remained and whilst there was no obvious indication of economic decline, major structural reform was not on the agenda. Under McEwen's stewardship, so-called 'protection all round' was both an economic and a political tool. Economically, it constituted the basis for Australia's industrial development and population expansion and, politically, it gained manufacturing support for the Country Party, support that was increasingly necessary as the rural electoral base declined.[81] McEwen's success in entrenching protection of the manufacturing sector whilst representing rural interests, can be understood in terms of the protective support he also offered to the weaker parts of the rural sector.[82]

The 1960s were a time of economic prosperity for Australia, as they were for most of the developed world. Whilst the annual average growth rate for Australia in the 1950s had been 4.73 per cent, from 1961 to 1970 the average was 5.36 per cent. Between 1960-61 and 1973-74 growth averaged 5.16 per cent. Inflation also remained low: between 1960-61 and 1973-74, the annual average rate of increase of the consumer price index was a little less than 4 per cent. For the 1960s the figure was less than 2.5 per cent. To complete the benign macroeconomic picture, unemployment remained very low in comparison with the period that followed. In the 1960s, unemployment averaged less than 2 per cent, with a high of 3 per cent in the recession of 1961-62. This was despite the increase in the labour force from a little over four million in 1959-60 to nearly six million in 1973.[83] Much of the stimulus for economic growth in Australia came from the world political economy, not only through the demand effects of high levels of economic activity throughout the developed world but through the impact of the "inflow of foreign factors of production: labour and capital."[84] Immigration continued to grow in the 1960s with migrants contributing 41 per cent of population growth. Despite the favourable economic times, Lougheed urges a less sanguine view of Australia's achievements during the period: "It should be noted, however, that Australia's growth rate was well below the average for the OECD as a whole and its per capita GDP growth was substantially below the corresponding OECD figure."[85]

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80 Meere, cited in Castles, *Australian Public Policy and Economic Vulnerability*, p. 139.
81 Bell, *Australian Manufacturing and the State*, p. 31.
82 Capling and Galligan, *Beyond the Protective State*, pp. 102-107.
83 Figures from Dyster and Meredith, *Australia in the International Economy*, p. 234.
84 Ibid.
85 Lougheed, *Australia and the World Economy*, p. 40.

Manufacturing expanded greatly under the post-war protectionist regime. In 1948-49 manufacturing accounted for 26.3 per cent of GNP (at factor cost) and manufacturing employment numbered 877,000 workers. By 1962-63 the figures were 28.2 per cent and 1,150,000. Farm production, by comparison, had decreased from 21.3 per cent to 12.6 per cent over the same period.[86] Despite the focus on import substitution in manufacturing and the lack of competitiveness that was to become evident from the early 1970s, manufacturing became a significant export earner for the first time in Australian history. Exports of manufactures increased from 7 per cent of GDP in 1949-50 to a peak of 26 per cent in 1972-73. The export share of manufactures nearly doubled between the early 1960s and the early 1970s, although many of these exports were in the 'simply transformed manufactures' category - resources that require minimal processing such as non-ferrous metals and simple iron and steel products.[87]

Such manufacturing strength, however, was not to last and the post-war expansion of the sector was gradually undermined by a series of pressures, including transportation and other technological advances, competition from Asian countries, increased wages, rising energy prices because of the oil shock of the early 1970s, and declining productivity. In the context of an over-valued dollar, due to increases in foreign earnings from the mining sector and considerable speculative foreign portfolio investment in mining company shares, an already uncompetitive manufacturing sector became even more uncompetitive.[88] Pinkstone points out that:

> Judging from the experience of the 1960s, by the early 1970s it appeared that Australia's export base was likely to change fundamentally and to move towards a more mature stage of development. In the 1970s and 1980s, however, conditions were not so propitious and the emergent trends were brought to a halt.[89]

In the rural sector, despite government efforts to maintain and stabilise agricultural earnings, by the late 1960s falling prices and the fact that productivity improvements had in many cases been exhausted, meant that the position of many farmers became extremely tenuous. It was not just the inefficient agricultural industries that faced difficulties at this time, but the wool industry as well. Drought and the development and use of synthetic fibres caused major problems for the industry. Previously, wool growers had not needed the level of support of many other rural industries but from 1970 they too became reliant on government subvention. The entry of Britain into the European Economic Community in 1973 meant that a major market for rural producers,

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86 James Vernon, et. al, *Report of the Committee of Economic Enquiry*, Volume 1, Canberra, Commonwealth of Australia, 1965, pp. 154 & 203.
87 Pinkstone, *Global Connections*, p. 180.
88 Bell, *Australian Manufacturing and the State*, p. 43.
89 Pinkstone, *Global Connections*, p. 180.

especially dairy farmers and fruit growers, "disappeared almost overnight."[90] The shift by the US and Europe to increased use of agricultural subsidies, often blocking Australian exports to third country markets, added further to the bleak outlook for the rural sector.

Increasingly during the 1960s, the mining sector opened up new opportunities for Australian economic growth and the growth of mineral exports helped reduce Australia's reliance on agricultural exports. In 1965, mineral exports constituted 19 per cent of total exports, but by 1973, this figure had increased to 42 per cent. The shift to mineral exports went hand in hand with a shift in the direction of Australian trade, away from Britain and Europe to Japan and the US. In the early 1970s, Japan and the rest of Asia accounted for half of Australia's exports.[91] Accompanying the mining boom of the 1960s was an at first gradual and then substantial increase in portfolio investment. Portfolio investment had been a minor component of foreign investment in the 1950s but from the early 1960s it increased considerably.[92] As Dyster and Meredith point out: "Throughout much of the 1950s portfolio investment and institutional loans from overseas had averaged $10 million a year. Inflow in these forms climbed during the 1960s, but in 1967-68 and 1968-69 the amount more than doubled, totalling $445 million and $402 million respectively." Combined with increases in direct investment, in 1972 the inflow of private capital accounted for 5 per cent of GDP, which was the "highest percentage inflow since 1949-50."[93] Although Australia achieved a trade surplus between 1973 and 1980, the surplus was insufficient to reduce the growing current account deficit which was funded by increasing capital inflow. Direct investment remained stable, but the increase in portfolio investment continued through the 1970s. Whilst in 1964-65 portfolio investment constituted 7 per cent of all foreign investment, by 1980-81 the figure was 53 per cent.[94] By 1982-83, this figure had blown out to 90 per cent.[95] The share market boom of the early 1980s was fuelled by this increase in portfolio investment. Substantial capital inflow caused considerable problems for macroeconomic management. Although capital inflows were prohibited without authorisation, "until late 1971 capital inflows were allowed to enter freely."[96] Controls on capital inflow were tightened in the last months of the McMahon Coalition Government in an attempt to regain some macroeconomic control.

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90 Kenwood, *Australian Economic Institutions Since Federation*, p. 46.
91 Dyster and Meredith, *Australia in the International Economy*, p. 250.
92 J. O. N. Perkins, *Australia in the World Economy*, Second Edition, Melbourne, Sun Books, 1970, ch. 5.
93 Dyster and Meredith, *Australia in the International Economy*, pp. 260-261.
94 INDECS, *State of Play 2*, Sydney, Allen & Unwin, 1982, p. 67.
95 Dyster and Meredith, *Australia in the International Economy*, p. 280.
96 Victor Argy, *Australian Macroeconomic Policy in a Changing World Environment*, Sydney, Allen & Unwin, 1992, p. 185.

From the mid-1960s, despite the continuing widespread support for protectionism, cracks in the protectionist policy structure began to appear. There had always been dissident voices against industry protection, and these became louder as professional economists and other economic commentators increasingly attacked protection.[97] In 1965, the Vernon Report which had been commissioned by the Menzies Government argued that means other than tariffs should be utilised to secure full employment and that a "benchmark tariff should be set which could not be exceeded."[98] This suggestion and another on the need for more considered economic planning were not well received and the report was duly shelved by the Coalition Government which continued to argue that Australia needed to protect itself from the outside world. The state, however, was not unified in its support and the head of the Tariff Board, Alf Rattigan, emerged as a significant opponent of industry protection. Rattigan had been originally placed in the job because McEwen thought he would be easily manipulated and willing to maintain the protectionist status quo.[99] In 1967 Rattigan attempted to "demolish the existing rules" for tariff assessment and to argue "for a comprehensive standard for industry protection."[100] He criticised the ad hoc nature of existing tariff reviews and wanted to see investment redirected to less protected industries.[101]

Whitlam and Fraser

By the time Whitlam was elected in 1972, Labor had been out of power for 23 years. The long conservative hold on power in Australia led to a weaker, more residual system of social welfare and little attempt to interfere with the microeconomic decisions of business within the parameters of the protectionist policy structure.[102] Whitlam came into office on a platform of comprehensive reform which aimed to shift Australia towards a more comprehensive social democratic stance. In his 1972 Policy Speech, Whitlam argued:

> we are determined that the Australian people should be restored to their rightful place in their own country - as participants and partners in government, as the owners and keepers of the national estate and the nation's resources, as fair and equal sharers in the wealth and opportunities that this nation should offer in abundance to all its people. We will put Australians back into the business of running and owning Australia. . . . This programme is ambitious. I acknowledge that. It has to be so; it should be so, because the backlog is so great.[103]

97 Castles, *Australian Public Policy and Economic Vulnerability*, pp. 146-147.
98 Capling and Galligan, *Beyond the Protective State*, p. 107.
99 Rattigan, *Industry Assistance*, p. 9.
100 Glezer, *Tariff Politics*, p. 92.
101 Ibid., p. 93.
102 Bell, *Australian Manufacturing and the State*.
103 Gough Whitlam, *It's Time for Leadership: Australian Labor Party Policy Speech*, 13th November, 1972.

At the beginning of his term in office, Whitlam declared his support for Rattigan's attack on protectionism and reconstituted the Tariff Board as the Industries Assistance Commission, including the rural and mining sectors within its ambit.[104] Influenced by the changing view of protectionism, in July 1973, the Government cut tariffs across the board by 25 per cent. In the spirit of European social democracy, Whitlam wanted to see a more efficient capitalism, and a highly protectionist policy structure did not fit with this agenda. Indeed, in a speech to the NSW Chamber of Manufactures, Whitlam remarked that his Government was "the first free enterprise government in twenty three years."[105] But as the country slipped into recession and as unemployment rose to levels not seen in the post-war period, the shift away from protectionism was reversed. With the worsening economic situation, the Government's resort to quotas for sensitive sectors after 1974 signalled a return to the most comprehensive form of protection.[106]

Much of the Whitlam Government's programme was based on an assumption of continuing prosperity. But as the mining boom turned to bust and as world economic instability turned to crisis and then recession, conditions for social reform became less than propitious. As Castles argues:

> The Whitlam reforms appeared to mark a major shift in ALP thinking from a belief in sharing the fruits of economic progress through the enhancement of personal incomes to a perspective which stressed that equitable access to those things which defined the quality of life - health, education and welfare - could only come about by government intervention on behalf of the community. . . . The irony, in hindsight, is that it sought a way out of its policy impasse of the mid-1960s by offering all citizens fair access to the good fortunes of the lucky country just at the point when the luck had begun to run out.[107]

The world economic downturn would have made managing the economy difficult for even the most competent and united government. Unfortunately, the Whitlam Government was riven with conflict on how best to manage the deteriorating economy. Inflationary pressures imported into Australia from the world economy were exacerbated by government policy, particularly the failure to tighten fiscal policy and control wages (average wages increased by 30 per cent in 1974).[108]

As Whitlam's speech suggests, economic nationalist feeling grew markedly over the 1960s and early 1970s in response to high levels of foreign ownership and the mining

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104 John Warhurst and Jenny Stewart, "Manufacturing Industry Policies" in Brian Head and Alan Patience (eds), *From Fraser to Hawke*, Melbourne, Longman Cheshire, 1989, p. 162.

105 Whitlam, cited in Stephen Bell, "Weak on the State: *Economic Rationalism in Canberra*," *Australia and New Zealand Journal of Sociology*, 29(3), December, 1993, p. 397.

106 INDECS, *State of Play 2*, p. 64.

107 Castles, *Australian Public Policy and Economic Vulnerability*, p. 21.

108 Dyster and Meredith, *Australia in the International Economy*, p. 269. Barry Hughes, "The Economy" in Alan Patience and Brian Head (eds) *From Whitlam to Fraser: Reform and Reaction in Australian Politics*, Melbourne, Oxford University Press, 1978, pp. 10-15.

boom.[109] A more economic nationalist stance had begun to emerge in the 1950s and, in 1960, McEwen had argued: "We want US business here with all its magnificent skills of management at all levels. But we don't want to be taken over. We will not be taken over."[110] Under the leadership of John Gorton, the Coalition had moved towards a more restrictive investment regime and the McMahon Government had introduced the Foreign Companies (Takeovers) Act in late 1972 which increased the ability of the state to block foreign investment.

But it was in the early Whitlam years that hostility towards foreign investment reached its apotheosis with rising concerns about the development of Australia's mineral resources and the considerable increase in the level of foreign investment in the mining industry in the late 1960s.[111] As prospects for growth stagnated in the manufacturing sector and accelerated in the mining sector, foreign capital began to look to the latter for investment opportunities. The cause of economic nationalism was championed by the Minister for Minerals and Energy, Rex Connor, who attempted to develop natural resource projects dominated by the state, rather than foreign investors. The enthusiasm of the Government and, especially, Connor to 'buy back the farm' (originally a Country Party slogan) led to the 'Loans Affair'. The Government sought to borrow US$4 billion from Arab sources without the cabinet or Loan Council approval. In addition to the opposition of the Coalition, Dyster and Meredith point out that "[v]oracious opposition to the proposed loan came from the financial interests in London and New York, from the foreign companies whose assets in Australia were likely to be subject to the buy-back policy and from the Commonwealth Treasury which regarded the source of funds as highly dubious."[112] Middle East 'petro-dollars' were to become an important source of capital on international financial markets in the later 1970s and 1980s, but in 1974 they were regarded warily. The Loans Affair badly damaged the Government's reputation and economic credibility and was used by Opposition leader Malcolm Fraser as a justification for the Senate's refusal to pass Supply - an event that led to the dismissal of the Whitlam Government.

Towards the end of its period of office and after the sackings of Deputy Prime Minister Jim Cairns and Rex Connor, the Whitlam Government moved towards a less nationalistic stance and reconfirmed Australia's need for foreign capital. This more moderate stance was confirmed by the Fraser Government which relaxed some of the provisions set up by the Whitlam Government. After the low levels of foreign

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109 Greg Crough and E. L. Wheelwright, *Australia: A Client State*, Melbourne, Penguin, 1982.
110 H. W. Arndt, "Foreign Investment" p. 135.
111 Ibid., pp. 138-39; Peter Loveday, *Promoting Industry: Recent Australian Political Experience*, Brisbane, University of Queensland Press, 1982, p. 100.
112 Dyster and Meredith, *Australia in the International Economy*, pp. 271-272.

investment during the early 1970s, due partly to the effects of the recession and partly to negative attitudes to the Whitlam Government from foreign investors, the Fraser Government was keen to see increased foreign investment. Nevertheless, significant areas of restriction remained during the Fraser years and his Government also set up the Foreign Investment Review Board.[113]

Immediately upon coming to office, the Fraser Government aimed to deal with inflation and what it considered to be its major causes: excessive labour power and 'big' government. Dealing with these issues, Fraser believed, would enable the more productive private sector to get on with the business of wealth creation. Fraser also maintained that the rural and resources industries would continue to provide for Australia's future.[114] Manufacturing decline, however, could not be anything other than a significant concern for the Government, as both employment levels and investment (both domestic and foreign) continued to fall. The Jackson Committee, which had been formed by the Whitlam Labor Government, reported in 1975 that:

> Australian manufacturing industry is in acute financial crisis. Unemployment is high. Factories are running below capacity ... there is a deep-seated and long-standing malaise.[115]

In an attempt to distance the Liberals from Labor's decision to cut tariffs across the board, Fraser promised that: "We will give Australian industry the protection it needs. We would sooner have jobs than dogma."[116]

In 1976, the Government devalued the Australian dollar by 17.5 per cent which helped to improve the competitiveness of Australian exports and import competing manufactures. In 1977, with Australia participating in multilateral trade negotiations, the Fraser Government reduced some tariffs. But as Corden argues:

> mostly these tariff reductions involved the removal of unused assistance .... The net result of these and some further changes resulting from IAC reports on particular industries, was that the average level of protection for manufacturing (in terms of effective rates) fell somewhat in 1977 and then stayed fairly constant, while the degree of non-uniformity of the structure of protection greatly increased.[117]

Before the end of the 1970s, two other reports into manufacturing were commissioned: the Government's 1977 *White Paper on Manufacturing Industry* and the 1979

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113 H. W. Arndt, "Foreign Investment," p. 140; Boehm, *Twentieth Century Economic Development in Australia*, pp. 161-62 & 169; Crough and Wheelwright, *Australia: A Client State*, p. 8. Crough and Wheelwright argued that the Foreign Investment Review Board should have been called Foreign Investment Attraction Board.

114 Kelly, *The Hawke Ascendancy*, ch. 3.

115 R. Gordon Jackson, *Policies for the Development of Manufacturing Industries: A Green Paper*, Vol. I, Canberra, AGPS, 1975, p. 1.

116 Cited in Warhurst and Stewart, "Manufacturing Industry Policies," p. 164.

117 Corden, *The Road to Reform*, p. 68.

Crawford Report. Both were cautious documents, recognising the failures of protectionism but not willing to adopt the economic liberalism of the Industries Assistance Commission on reducing protection. The rising unemployment of the 1970s revealed the problematic nature of the IAC's economic liberal strategy. Tariff reductions, it argued, were needed to increase the efficiency of Australian industry, but such reductions would undoubtedly have further exacerbated the already considerable loss of jobs in the sector and hence in the wider economy.[118] During a period of low growth and then recession such an option would have been very bold indeed. Inspired by a suggestion from the Crawford Report, a view emerged in the late 1970s that tariffs should only be cut if unemployment fell below 5 per cent: a level below which unemployment has not since fallen.[119]

Table 11: Australian Average Effective Rates of Assistance for Manufacturing and Agriculture

Item	1968-69	1971-72	1974-75	1977-78	1980-81	1981-82	1982-83
	percentages						
Total manufacturing	36	35	27	23	23	25	25
Total agriculture		21	8	13	8	9	16
Selected sectors:							
Food, beverages, tobacco	16	19	21	10	10	9	9
Textiles	43	45	39	47	55	54	54
Clothing, footwear	97	86	87	141	140	204	220
Basic metal products	31	29	16	10	10	11	11
Fabricated metal products	61	58	39	30	31	31	27
Motor vehicles & parts		49	54	73	96	108	110
Total manufacturing less textile, clothing footwear and motor vehicles & parts	32	32	23	17	16	16	15

Figures for 1968-69 and 1971-72 at 1971-72 production weights; for 1974-75 at 1974-75 production weights; for remaining years at 1977-78 production weights. Figures for different production weights are not strictly comparable.
Source: Kym Anderson and Ross Garnaut, *Australian Protectionism: Extent, Causes and Effects*, Sydney, Allen & Unwin, 1987, p. 11.

Despite Fraser's support for protection, effective average rates of assistance declined in manufacturing as a whole, as Table 11 shows. The effective rate for other manufacturing industries declined even further if we exclude the textile, clothing and footwear and the motor vehicle industries which were subject to substantial increases in protection. Rates of assistance to agricultural industries declined significantly during the Whitlam years (indicating the predominantly urban voting base of the Whitlam Labor Party) and under Fraser agricultural rates of assistance increased, then declined,

118 Manufacturing sector decline between 1974 and 1983 was extensive: its share of GDP declined from 22.5 per cent to 18 per cent, the number of factories declined from 37,000 to 27,000, 280,000 jobs were lost and manufacturing's share of total employment declined from 22.8 per cent in 1974 to 17.8 per cent in 1984. See Bell, *Australian Manufacturing and the State*, pp. 121 & 135-143 and Ewer, Higgins and Stevens, *Unions and the Future of Australian Manufacturing*, p. 21.

119 Warhurst and Stewart, "Manufacturing Industry Policies."

and then increased considerably in 1982-83 as drought took hold and an election approached.

With the rise of the mining sector from the 1960s, policy-makers were often ambivalent about the future of the manufacturing sector.[120] The resources boom was seen by many as the solution to Australia's economic crisis. In his 1980 policy speech, Fraser said of Australia's resource 'development':

> In my policy speech of 1977 I said Australia could look forward to $6000 million in development. Some amazement was expressed in this - even disbelief ... And now prospective development is $29000 million. This development promises to be as important to Australia and individual Australians as anything in the last 35 years. Already new aluminium smelters and mines are being established in Australia along with the associated new towns, railways and port facilities. The benefits of this will be felt nationwide.[121]

John Stone, Secretary to the Treasury, suggested that, faced with an appreciating currency because of the boom in mineral exports, Australia should lower protection levels so that the burden of adjusting to the boom would fall on the inefficient manufacturing industries. This would allow imports to flow into the Australian economy and lessen the trade surplus, thus lessening the pressure on the currency. The obvious political difficulty of this strategy was evident in Fraser's equivocations over reducing protection and the eventual collapse of the boom allowed the issue to be avoided.[122] Both Fraser and Stone, as well as many others, failed to realise the extent of Australia's structural economic problems and remained wedded to the idea that Australia's resource wealth would continue to provide for Australia's economic future.

The ability to insulate manufacturing was declining as it became increasingly uncompetitive even with tariffs. High tariffs increased the costs for competitive industries and provided few incentives for restructuring. As Australia's export earnings from primary products were increasingly unable to underpin the protectionist policy structure, the need for restructuring became more obvious. The manufacturing sector could provide no solution to economic woes unless it could be restructured to increase the level of exports or at least to compete more effectively against imports.

The financial sector was another area of the economy that increasingly faced pressures for change. By the 1970s, the market share of banks in Australia had declined significantly, with building societies, finance companies and merchant banks emerging to meet the demand for finance created by regulatory restrictions. The declining market

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120 Ibid., p. 174-175; Bell, *Australian Manufacturing and the State*, pp. 122-123.

121 Fraser, cited in Kelly, *The Hawke Ascendancy*, p. 93. See also Robert Birrell, Doug Hill and John Stanley, (eds) *Quarry Australia? Social and Environmental Perspectives on Managing the Nation's Resources*, Melbourne, Oxford University Press, 1982, p. xi.

122 INDECS, *State of Play* 2, Sydney, Allen & Unwin, 1982, p. 75.

share of the banks caused concern at the Reserve Bank because of their essential role in monetary policy and in the late 1960s the Reserve began to look for "a more market-oriented method of implementing monetary policy."[123] Some important regulatory shifts took place in the early 1970s, but in the latter part of the decade the movement towards liberalisation was cut short through the reimposition of credit ceilings and direct controls on bank balance sheets. The variable deposit requirement "was introduced to help insulate the domestic economy from volatile overseas capital inflow."[124] Under the Whitlam Government, capital inflow regulations had been tightened and then subsequently relaxed as the need for capital to fund the current account became necessary and a similar tightening and subsequent loosening occurred during the years of the Fraser Coalition Government.[125]

In January 1979, with Australia's tightly regulated financial system increasingly under attack from major financial interests and pressured by global developments, the Fraser Government established the Committee of Inquiry into the Australian Financial System (Campbell Committee). In its report released in November 1981, the Committee recommended wide-ranging liberalisation of the financial sector, based on a view that:

> the most efficient way to organise economic activity is through a competitive market system which is subject to a minimum of regulation and government intervention.[126]

During its final years, the Fraser Government made some moves towards liberalising the financial sector: quantitative lending guidance was abandoned in June 1982 and in January 1983 it was announced that foreign banks were to be invited to submit applications for banking licences. This latter proposal was overtaken by the election of the Hawke Government in March 1983. Significantly, other key liberalising recommendations of the Campbell Committee such as the shift to floating exchange rates and the abandonment of exchange controls were rejected by Fraser.

Overall, Fraser continued to support the protectionist policy structure, even if many members of the Party, especially Treasurer, John Howard, were increasingly frustrated by the failure to embrace economic liberalism. Despite its rhetoric of smaller government, the Fraser Government did not overcome the post-war Liberal-Country Party legacy of protected *laissez faire*.[127] As Kelly argues:

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123 Grenville, "The Evolution of Financial Deregulation," p. 15.
124 Ibid., pp. 23- 24.
125 Edna Carew, *Fast Money 3*, Sydney, Allen & Unwin, 1991, pp. 7-10; Dyster and Meredith, *Australia in the International Economy*, p. 262; Argy, *Australian Macroeconomic Policy*, p. 198.
126 Cited in Tom Valentine, "An Appraisal of Financial Deregulation" in Chris James, Chris Jones and Andrew Norton (eds), *A Defence of Economic Rationalism*, Sydney, Allen & Unwin, 1993, p. 29.
127 Bell, *Australian Manufacturing and the State*, p. 5. Bell does argue, however, that the Fraser Government "initiated a significant shift in the character of Australian industry policy by accepting, in the late 1970s, the new interventionist strategy of the Crawford Report." *Ibid.*, p. 97.

> Fraser was elected as possibly the most protectionist Prime Minister for a generation and only in the second half of his prime ministership did he realise the damage his protectionist approach had done in the first half. But it was never rectified because politics came first. . . . It is difficult not to conclude that Fraser ran from big structural issues that shaped Australian politics and society because he feared they were just too hard to handle.[128]

The Situation in 1983

Australian policy-makers have had to deal with a myriad of economic problems since the mid-1970s. In addition to the problems that afflicted other advanced capitalist economies to varying degrees in the 1970s and 1980s, such as low growth, high inflation and unemployment, declining productivity and profit levels, and the growing power of global financial markets, policy-makers began to realise that Australia had "the wrong type of economy for the late twentieth century."[129] This unsettling conclusion was accentuated after the 'resources boom' of the early 1980s failed to bring the economic windfall that some had believed would provide Australian policy-makers with the 'problem' of working out what to do with large trade surpluses.[130] This fleeting trade optimism was particularly ironic in hindsight because it was the terms of trade/balance of payments crisis of the mid-1980s which, more than anything else, focused the minds of policy-makers on Australia's unreliable and vestigial economic structure. At the beginning of Labor's thirteen year tenure in office, it was increasingly evident that, beyond the recession, Australia's major economic problems were structural in nature. Australia had restrictive regulations in trade, finance and foreign investment and this strategy of nationally-focused economic growth involved a low level of exports with most of them in the mining and agricultural sectors.

The situation facing the incoming Labor Government was bleak, as Tables 12 and 13 show. Inflation remained a fundamental economic problem, regardless of the effort of the Fraser Government to give it priority over unemployment with its 'fight inflation first' strategy. After the 5.1 per cent growth of 1978-79, the economy slowed and finally, as the world economic slowdown caught up with Australia, went into substantial recession in 1982-83. Unemployment remained high from the mid-1970s

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128 Kelly, *The Hawke Ascendancy*, p. 428.

129 Stephen Bell, *Ungoverning the Economy: The Political Economy of Australian Economic Policy*, Melbourne, Oxford University Press, 1997, p. 2. See also John Ravenhill, "Australia and the Global Economy" in Stephen Bell and Brian Head (eds), *State, Economy and Public Policy in Australia*, Melbourne, Oxford University Press, 1994.

130 See for example the debate in INDECS, *State of Play 2*, Sydney, Allen & Unwin, 1982, pp. 70-76. See also Robert Birrell, Doug Hill and John Stanley, (eds), *Quarry Australia? Social and Environmental Perspectives on Managing the Nation's Resources*, Melbourne, Oxford University Press, 1982.

and was to worsen as the economy slowed, reaching 9.9 per cent in 1982-83. After almost recording a budget surplus in 1981-82, the Fraser Government decided to abandon its fiscal stringency in the hope that a moderate fiscal stimulus would improve its electoral chances in the 1983 election.

Table 12: The Economic Situation in 1983 - Domestic

Year	Consumer Price Index 1980-81=100		Real GDP	Unemploy-ment	Budget Deficit
	Index	% change	% change	% of labour force	% of GDP
1977-78	76.7	9.4	0.9	6.2	3.5
1978-79	83.0	8.2	5.1	5.9	3.3
1979-80	91.4	10.1	1.7	5.9	1.7
1980-81	100.0	9.4	2.8	5.6	0.8
1981-82	110.4	10.4	2.1	6.7	0.4
1982-83	123.1	11.5	-1.0	9.9	2.7

Source: Barrie Dyster and David Meredith, *Australia in the International Economy in the Twentieth Century*, Melbourne, Cambridge University Press, 1994, pp. 270-271; Kevin Davis, "Managing the Economy" in Brian W. Head and Allan Patience (eds) *From Fraser to Hawke: Australian Public Policy in the 1980s*, Melbourne, Longman Cheshire, 1989, p. 77.

Table 13: The Economic Situation in 1983 - International

Year	Net Foreign Debt	Net Foreign Liabilities	Current Account Balance
	percentage of GDP		
1977-78	6.5	12.5	-3.1
1978-79	7.3	13.5	-3.3
1979-80	5.6	21.4	-1.6
1980-81	6.1	23.3	-3.9
1981-82	10.4	24.3	-5.5
1982-83	13.6	28.1	-3.8

Source: R. A. Foster, *Australian Economic Statistics: 1949-50 to 1994-95*, Reserve Bank of Australia, 1996.

On the international front, Australia's net foreign debt more than doubled between 1980-81 and 1982-83 largely because of the new investment in Australia's resources industries. Total net foreign liabilities increased from 12.5 per cent of GDP in 1977-78 to 28.1 per cent of GDP in 1982-83. Australia had maintained a surplus on goods and services trade every year after 1967-68 with continuing trade surpluses helping to offset the deficit on services and income payable overseas. But in 1980-81 the trade balance went into a small deficit. In 1981-82 the trade balance worsened as imports surged and Australia's current account deficit worsened from the already high level of the previous year. The current account deficit of 5.5 per cent of GDP in 1981-82 was the highest since the Korean War.[131] Many of the imports were capital goods needed for resource projects but as the world economy slipped into recession, export opportunities

131 Dyster and Meredith, *Australia in the International Economy*, pp. 272-273.

weakened and the deficit blew out. After the poor economic outcomes of the 1970s, the promised resource boom contributed instead to a balance of payments crisis which would grow in importance in 1985 and 1986 as the terms of trade worsened further.

Conclusion

Throughout Australian history, economic activity has been shaped by two major factors: the pre-eminent role of the state and vulnerability to developments in the world political economy. The combination of these two factors led to the development of a comprehensive protectionist policy structure over the twentieth century that was heavily embedded in the political culture of Australia. The state aimed to protect economy and society from the uncertainties of the world political economy, without undermining capitalistic relations of production and work.

Dealing with a renewed bout of economic vulnerability from the 1970s, it was not surprising that the Whitlam and Fraser Governments failed to move beyond the protectionist policy structure in their attempts to maintain office. Whereas protectionism had initially been a defensive reaction to the variability and singularity of Australian wealth and a defence of an already high living standard, it was increasingly relevant that all protectionism was defending by the 1980s was a declining economy and deteriorating living standards. Australia's twentieth century attempts to lessen economic vulnerability had, by the 1980s, left Australia increasingly vulnerable to developments in the world political economy. Given that the long-standing protectionist policy structure was well entrenched in the mind-set of Australians, any comprehensive programme of policy change would need to be accompanied by considerable public persuasion. Many Australians would have to be convinced that protectionism was no longer a viable way to deal with economic vulnerability. Equally likely was that the restructuring of the Australian economy would require a substantive role for the state. Altering the policy structure and expectations of a protective role for the state would require both policy autonomy and capacity. After the perceived failure of the Fraser years, most economic liberals did not hold out much hope for a Labor Government.[132] Over the ensuing years, however, they were to be surprised.

132 Capling and Galligan, *Beyond the Protective State*, pp. 119-120.

Chapter Five

Economic Liberal Globalisation

Introduction

> A consistent tenet of our economic policy has been the need to internationalise the Australian economy.[1]

The shift in policy during the Hawke and Keating years was a thorough repudiation of the protectionist policy structure described in the previous chapter. The pace of change varied between sectors of the economy, between the far-reaching and rapid liberalisation of the financial sector and the more gradual and consensual shift in industrial relations. Although the shift in policy was slower and less extensive than many economic liberal commentators thought appropriate, there can be no dispute about the direction of policy and the Labor Government's and the wider state's support for economic liberal globalisation. The shift to economic liberalism in Australia has been seen variously: as the dominance of a particular set of ideas, as in the longer-term interests of capital, as signalling changes in Australian society, as a result of particular state responses to contingent crises, and as an international imperative, forcing domestic adjustment. This last explanation has become the dominant interpretation of, and justification for, the development of economic liberal globalisation in Australia.

The first part of this chapter briefly outlines the shift to economic liberalism during the years of the Hawke and Keating Governments, providing an overview to set the scene for the more detailed analysis of economic policy developments undertaken in chapter six. The second section reviews arguments about the causes underlying the economic liberal policy shift.

The Economic Liberal Ascendancy

> I sometimes hear the observation - in praise from some of your quarters, in anguish from some of mine, that this is the best Liberal Government in memory. The observation is quaint but of itself unrevealing. Our changes do not derive from some profound political philosophy. They are based squarely upon, first, clear, level-headed perceptions of what is necessary to create the conditions appropriate for optimum

1 R. J. L Hawke, "Speech to Business Council of Australia," (17 September) *Commonwealth Record*, 15-21 September, 1986, p. 1598.

> growth and, second, a commitment to take the action required to give effect to those conditions.[2]

After the defeat of the Whitlam Government in 1975, Labor needed to break down the perception that it was economically incompetent, unable to be trusted with the management of the country's economic affairs. As Treasurer in the final year of the Whitlam Government, Bill Hayden had signalled Labor's willingness to embrace the tenets of economic 'rationalism' by shifting the Government's focus from unemployment to inflation. In his Budget speech, he argued that Australians no longer lived in a "simple Keynesian world in which some reduction in unemployment could, apparently, always be purchased at the cost of more inflation. Today, it is inflation itself which is the central policy problem."[3] As Opposition leader from 1977, Hayden initially focused on this theme of economic responsibility. At the 1979 ALP National Conference, for example, he declared:

> We will not find our future in the past. Much and all as we may regret it, now is not the time for the visionary reform programmes of earlier years. This is the period of the hard slog and the scope for reform will have to be won by hard work, by discipline, and by a commonsense approach to policy. There is frankly no easier way and we can't fool ourselves, or the people, by thinking that there is . . . First, and above all else, we must demonstrate beyond doubt that we are competent economic managers. That competence and the public's recognition of it is the absolute essential underpinning of everything we want to do. Without it, without an unqualified commitment to pursue responsible economic management then we might just as well pack our bags and give the game away. It is, I believe, as crucial as that.[4]

Despite this rhetorical shift, oppositional politics and electoral factors continued to structure the Party's policy positions. In the lead-up to the 1980 election, Hayden shifted his emphasis away from economic rationalism and responsibility to a more populist position. Labor increasingly attacked the Fraser Government about its 'fight inflation first' policy and began to re-embrace Keynesian demand management ideas.[5] Hayden also abandoned his support for lower tariffs to minimise protection as an electoral issue.[6] Although some members of the Party and the union leadership were against protectionism (including Bob Hawke), within the wider labour movement there remained considerable protectionist sentiment. Support for protection made the Labor leadership wary of change, especially given the damage that had been caused by Whitlam's 25 per cent across the board tariff in 1973.

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2 R. J. L. Hawke, "Speech to National Press Club," (29 November 1984) *Commonwealth Record*, 26 November-2 December, 1984, p. 2503.
3 Hayden, cited in Tim Battin, *Abandoning Keynes: Australia's Capital Mistake*, London, Macmillan, 1997, p. 95.
4 Hayden, cited in Paul Kelly, *The Hawke Ascendancy*, Revised Edition, Sydney, Angus and Robertson, 1984, p. 71.
5 Battin, *Abandoning Keynes*, p. 101.
6 Kelly, *The Hawke Ascendancy*, pp. 74-75.

Before taking office, Labor's 1982 Party Platform and the Accord agreement negotiated with the Australian Council of Trade Unions (ACTU) provided considerable evidence that there would be a rekindling of Keynesian expansionism and interventionism and a shift towards West European style neo-corporatism.[7] The perception among many in the labour movement was that restoring growth and restructuring the Australian economy would be best achieved by traditional Keynesian policy tools and a resort to planning mechanisms.[8] Bob Hawke replaced Bill Hayden as leader of the Labor Opposition at the same time as Prime Minister Malcolm Fraser called the 1983 election. With Australia in the midst of its deepest recession since the 1930s and riven with political conflict, a sullen Bill Hayden asserted that "even a drover's dog" could lead the Labor Party to victory. During the election campaign, Hawke was circumspect about an interventionist role for the state and, in launching the Labor Party's campaign, he was careful not to promise too much from a Labor victory. While there would be "significant new expenditure" Hawke also stated:

> My fellow Australians: let me from the very beginning of this campaign and to the end of this campaign, sound a note of caution and realism. We offer no miracles. We offer no overnight solutions for the immediate problems we must face together. . . . This is not the time for grandiose spending proposals of the kind Mr Fraser has drummed up in recent weeks.[9]

Hawke aimed to reverse popular perceptions of the two parties: the putative party of fiscal irresponsibility was attacking the Liberal Government about economic responsibility, an issue which, in the past, had been a definite conservative advantage. Despite its measured tone, Hawke's policy speech included a little something for everybody: enough of a focus on expansion and other social democratic goals to satisfy the unions and traditional Labor voters and enough of a focus on responsibility and the maintenance of the inflation goal to satisfy business. Significantly, as Barry Jones later pointed out:

> The major economic changes, especially the reduction of tariffs, industry restructuring, running down of public infrastructure, privatisation of government business enterprises

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7 Australian Labor Party, *Australian Labor Party Platform, Constitution and Rules as Approved by the 35th National Conference*, Canberra, 1982; ACTU/ALP, Statement of Accord, reproduced in Frank Stilwell, *The Accord ... and Beyond*, Sydney, Pluto Press, 1986. R. J. L. Hawke, "Labor Party Policy Speech" (16 February 1983) *Commonwealth Record*, 14-20 February, 1983, pp. 209-217. More leftist proposals were heavily canvassed by both the Labor and non-Labor Left. See for example John Langmore, "An Economic Strategy for a Labor Government," *Journal of Australian Political Economy*, 12/13, June, 1982 and other articles on "Alternative Economic Strategies" in the same edition.

8 See for example W. G. Hayden, "Speech to Public Policy Conference," (19 November 1982) *Commonwealth Record*, 15-21 November, 1982.

9 R. J. L. Hawke, "Labor Party Policy Speech," (16 February 1983) *Commonwealth Record*, 14-20 February, 1983, p. 210.

> and attempted entry into a global economy were not even hinted at in Hawke's policy speech.[10]

The central plank of Labor's economic strategy in 1983 was the Accord with the trade union movement. The Whitlam Government's experience with the wage 'explosion' of 1974 and the Fraser Government's with the wage 'break-out' of late 1981 reinforced the message that the effective management of labour relations was essential for successful government and economic stability. Through the Accord, Labor also wished to avoid the confrontation between the political and industrial wings of the labour movement which had been so damaging during the Whitlam years.[11] The concept of an ALP-ACTU agreement had been endorsed at the Party's National Conference in 1979 and the Labor Party had taken a prices-incomes policy to the 1980 election. The concept was again endorsed at the 1982 National Conference and negotiations continued into early 1983. In February 1983, a Special Unions Conference ratified the Accord after Malcolm Fraser called an early election for the fifth of March, 1983.[12]

The Accord aimed to control inflation by balancing an expansionary macroeconomic policy stance with wage restraint, with the union movement and workers compensated for restraint by the "social wage" and "over time."[13] Although the Accord outlined that there was no rapid way to return to full employment, it argued that the policy instruments used by policy-makers were important. In particular, the use of unemployment to hold down inflation was rejected.[14] In regards to industry policy, "closely monitored and comprehensive" interventionist policies were necessary to revitalise industry and a "planning mechanism" was necessary to assist the "transition of the economy into a planned framework."[15] Whilst noting that "Australian industry is subject to change and that the pace of change may accelerate in the future," it was stressed that "industry policy must be applied in a manner which will facilitate change while minimising the hardship associated with such change." Significantly, the document stated that "neither the current economic conditions, expected future trends, nor balance of payments constraints justify reduction in protection in the foreseeable future." In addition, "changes to protection in the future will be determined within the planning mechanisms in which unions and business will play key roles." Temporary assistance procedures and dumping actions were to be "streamlined so that swift action can be taken by Government to offset the adverse effects of temporary losses of

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10 Barry Jones, "Where *Do* Governments Get Their Advice?," *Canberra Bulletin of Public Administration*, 75, December 1993, p. 110.
11 Bill Brugger, "A New Style For Labor? The Hawke Government," *Current Affairs Bulletin*, 1986.
12 Paul Kelly, *The End of Certainty*, 2nd Edition, Sydney, Allen & Unwin, 1994, p. 61.
13 ALP/ACTU, *Statement of Accord.*
14 Ibid., p. 159.
15 Ibid., pp 167-168.

competitiveness."[16] Interestingly, given the subsequent extensive influence of the Industries Assistance Commission (IAC) during the 1980s, the Accord outlined that its activities and role were to be reviewed and that "the social effects of unemployment" should be included "in all terms of reference."[17] The "virtual unfettered actions of transnational companies" were to be regulated by the adoption of international codes of conduct and crackdowns on transfer pricing; "the guidelines of the Foreign Investment Review Board" were to be reviewed; and "the substantial tax incentives now available to Australian industries to relocate in low tax countries" were to be eliminated.[18] Overall, the Accord stated that "the paramount objective of economic policy is the attainment of full employment" which required the Government to play a substantially interventionist role in the economy.[19]

In March 1983, Labor returned to office after eight years in opposition. The depth of the recession and growing evidence and awareness of Australia's structural economic problems meant that the new Government's initial focus was on economic matters.[20] Immediately upon taking office, the Government was told that the budget outlook was significantly worse than the Fraser Government had admitted during the election campaign. Instead of a deficit of $4.5 billion for 1983-84, the figure was revealed to be $9.6 billion. Labor's campaign promises would have added another $1.8 billion and John Stone, Secretary to the Treasury, argued that without policy change, "[s]uch a deficit would be equivalent to 6 1/2 per cent of GDP, the highest in Australian post-war history."[21] The Government immediately abandoned key elements of its election policy platform. Many in the labour movement were dismayed, arguing that the reversal represented a betrayal of Labor's election commitments and endangered the Government's newly constructed Accord relationship with the ACTU.[22] The new Government, however, was convinced by arguments that recovery from the recession was gathering pace and that further fiscal stimulus risked overheating the economy.

During the election campaign, Hawke had focused on the theme of reconciliation, recovery and reconstruction in an attempt to distinguish the Labor Party from the "divisive" Fraser Government. Ensconced in office, Hawke used the notion of

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16 Ibid., p. 169.
17 Ibid., p. 170.
18 Ibid.
19 Ibid., p. 167.
20 Between the September quarter of 1981 and the June quarter of 1983, GDP fell by 3.6 per cent. Unemployment was over ten per cent and inflation over eleven per cent. INDECS, *State of Play 3*, Sydney, Allen & Unwin, 1982, pp. 7-8 & 30.
21 John Stone, cited in John Edwards, *Keating: The Inside Story*, Melbourne, Penguin Books, 1996, p. 196.
22 Kelly, *The End of Certainty*, p. 57; Edwards, *Keating*, p. 199; John Langmore, "The Labor Government in a De-Regulatory Era" in Brian Galligan and Gwynneth Singleton (eds), *Business and Government Under Labor*, Melbourne, Longman Cheshire, 1991.

consensus to argue that there was a basic commonality of interest between government, unions and business and acted on his promise to hold a National Economic Summit Conference. The Summit was held in April 1983, bringing together policy-makers, the ACTU and representatives of business, as well as token representatives from other interest groups (of the one hundred invited delegates, there was only one woman). Hawke stressed that all Australians had an interest in achieving economic growth and that these interests would be best served by the various economic participants coming together to formulate a consensual solution to Australia's economic problems.[23]

Given the emphasis on intervention and planning, the Accord worried many within the business community. Such concerns and assertions such as those from Malcolm Fraser that the Accord represented the beginning of socialism in Australia, meant that the Government needed to reassure business that it was conscious of their needs.[24] The Summit provided a suitable forum for this to be achieved and revealed that to get business onside - to achieve consensus - it was necessary to significantly modify those aspects of the Accord that alarmed business.[25] Even though it revealed the effective organisational capacities of Government and the ACTU, as distinct from the disorgnised nature of business representation, most of the ambiguities present in the Accord were resolved at the Summit. As McEachern points out, despite the appearance that the Government and the unions had outplayed 'business', the Summit's final communique established beyond doubt "the primacy of the private sector, the pre-eminent importance of private profit and the limited supportive role of government."[26] The consensual framework, symbolised by the Summit, meant that the union movement's demands would have to be predicated on the restoration of international competitiveness and, more particularly, the profit share (which implied a decrease in

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23 R. J. L. Hawke, "National Economic Summit Communique" (14 April 1983) *Commonwealth Record*, 18-24 April, 1983.

24 Fraser argued that the Accord "amounts to an Australia subject to socialist regulation and control, in which union leaders, and the Labor Party would plan and direct economic activity and centralise power in the hands of a few." Malcolm Fraser, "Speech to National Press Club," (1 March 1983) *Commonwealth Record*, 25 February- 6 March, 1983, p. 297.

25 Doug McEachern, *Business Mates: The Power and Politics of the Hawke Era*, Sydney, Prentice Hall, 1991, pp. 21-23. See also Doug McEachern, "Taking Care of Business: The Hawke Government and the Political Management of Business" in Brian Galligan and Gwynneth Singleton (eds), *Business and Government Under Labor*, Melbourne, Longman Cheshire, 1991.

26 McEachern, *Business Mates*, pp. 28-29. See also Hawke, "National Economic Summit Communique." Business's lack of organisational sophistication worked against it on several occasions when it was defeated on particular issues. The National Economic Summit made business look disorganised because it was disorganised. During the Tax Summit, business opposition to Keating's tax reform package meant that it did not get the reform that it had wanted - the consumption tax - whilst getting the reforms it did not want - the capital gains and fringe benefits tax. These defeats on particular issues did not mean that the stance of policy was anti-business, but they did indicate that, despite the Government's willingness to increase the profit share and enact business-friendly policies, organisational prowess was still essential for different business sectors. In a complex economy, the diversity of business interests means that even a pro-business government could disadvantage some sections of business.

labour's share of national income).[27] The ACTU was sympathetic, therefore, to the problems of governing from the very beginning. Its submission to the 1983 national wage case stated: "It was never perceived that all the individual provisions, commitments, goals in the accord would be achieved in the first term of office . . . it is something that will be gradually implemented over years, not months."[28]

By far the most important early indication that the Government was willing to embrace economic liberal policy changes was the decision to float the dollar, abandon exchange controls and liberalise the financial sector.[29] Financial liberalisation, which was seen as an inevitable response to global financial and technological developments, exposed the Australian political economy to the market disciplines of the international financial system.[30] Financial pressures provided a major stimulus and justification for the subsequent embrace of economic liberal policies in other sectors of the economy. The need to maintain financial market and investor confidence was immediately seen as a fundamental reason why the budget deficit should be kept low.[31] During its first term of office, the new Government used the world economy and the need for economic responsibility to persuade others of the need for substantial policy change and to enact economic liberal policy measures. The importance of the world economy in structuring economic policy in Australia was stressed by Hawke and Keating from the beginning. There was an understandable focus on the effects of the world recession on Australian exports and growth, but as Keating argued at the Summit: "that recession needs to be viewed also as part of a longer term decline in Australia's economic performance."[32]

Any notion of Left-wing economic reformism was quickly abandoned in office and financial liberalisation, especially the issue of foreign bank entry, caused much anguish within the Party and the union movement. For many in the Party, especially on the Left, the economic liberal shift was a move inappropriate for a Labor government.[33] At

27 McEachern, *Business Mates*.
28 Cited in R. J. L. Hawke, "Speech to ACTU Congress," (12 September 1983) *Commonwealth Record*, 12-18 September, 1983, p. 1492.
29 Financial liberalisation is discussed in greater detail in the following chapter.
30 Paul J. Keating, "Speech to Banking Summer School," (12 February 1986) *Commonwealth Record*, 10-16 February, 1986, p 173; "Speech to Australian Bankers' Association" (18 June 1986) *Commonwealth Record*, 16-22 June, 1986; Bob Hawke, *The Hawke Memoirs*, Melbourne, William Heinemann, 1994, p. 236; Kelly, *The End of Certainty*, ch. 4.
31 See for example Hawke, *The Hawke Memoirs*, pp 174-175; Kelly, *The End of Certainty*, p. 221.
32 Paul Keating, "Speech to National Economic Summit," (11 April) *Commonwealth Record*, 11-17 April, 1983, p. 465.
33 On the shift in direction, see Kelly, *The Hawke Ascendancy*; *The End of Certainty*; Edwards, *Keating*. For examples of those who saw these moves as indicative of a shift away from 'appropriate' Labor policies see Graham Maddox, *The Hawke Government and Labor Tradition*, Melbourne, Penguin, 1989; Dean Jaensch, *The Hawke-Keating Hijack: The ALP in Transition*, Sydney, Allen & Unwin, 1989; Tim Battin, "A Break From the Past: The Labor Party and the Political Economy of Keynesian Social Democracy," *Australian Journal of Political Science*, 28(2), 1993. For a critique of these arguments see Carol Johnson, *The Labor Legacy*, Sydney, Allen & Unwin, 1989. See also the discussion in chapter seven.

the 1984 Labor Party Conference, the Government defeated the Left not only on foreign banks, but on the issues of uranium mining, US bases, East Timor, and on alternative ideas for running economic policy, generally. As Neville Wran argues:

> The result of the Government prevailing on those issues at the 1984 Conference really meant the almost, not complete, but to a degree, a large annihilation of the Left-wing of the Labor Party as a voting force at the Party's Conferences and it gave the Government itself, that's Hawke, Keating and their Ministers a newfound sense of power, probably. And that led to a maintenance of their agenda for change and there's no doubt about it, whether you like it or not, Hawke and Keating revolutionised the financial and fiscal system.[34]

The Government's initial willingness to restrict its fiscal programme was reinforced in the lead up to the 1984 election. Hawke's 'trilogy' commitment during the 1984 election campaign aimed to discipline demands on public spending and to highlight the Government's credentials as a responsible economic manager. The 'trilogy' committed the Government to no increases in taxation, government spending or the budget deficit as a percentage of GDP and made cuts to the public sector unavoidable.[35] After the December 1984 election, the Government did not wait until the following August Budget to cut spending, instead it released the first of a series of May Economic Statements to cut spending by $1.25 billion.[36] The 1985-86 Budget, following the guidelines of the trilogy, cut the deficit through spending cuts, rather than tax increases. As Stilwell points out, the Government accepted the 'crowding-out' thesis, "that curtailing the size of the public sector is necessary to provide the conditions for the expansion of the private sector of the economy."[37] The possibilities for a more interventionist industry strategy and social spending were thus further restricted. The trilogy was an attempt to convince both the financial markets and the electorate that Labor was irrevocably moving away from the 'tax and spend' stance of the Whitlam past and could be trusted with the economic reins. It represented a confluence of economic liberalism with electoral opportunism.[38]

Over much of 1985, the Government's economic agenda was shaped by Keating and the Treasury, and their combined zeal for taxation reform. The goal was to make the taxation system more favourable for exporters and Australia a more attractive site for foreign investment. Taxation reform, like so much else in Australian politics in the

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34 Neville Wran on ABC Television, *Labor in Power*, 1993. As Graham Richardson described the situation in his memoirs: "After the uranium decision the Government was riding high. Hawke was on top, Keating on the rise, unemployment and inflation were falling and the Left was in decline. It would have been difficult to imagine a better scenario for an election." Graham Richardson, *Whatever It Takes*, Sydney, Bantam Books, 1994, p. 163.

35 R. J. L. Hawke, "Labor Party Policy Speech," (13 November 1984) *Commonwealth Record*, 12-18 November, 1984, pp. 2238-2239.

36 Paul J. Keating, *Economic Statement: May 1985*, Canberra, AGPS, 1985.

37 Stilwell, *The Accord ... and Beyond*, p. 112.

38 Hawke, *The Hawke Memoirs*, pp. 153 & 262. For a critique of Labor's electoral strategy, see Hugh Stretton, *Political Essays*, Melbourne, Georgian House, 1987.

1980s was, according to Kelly, "legitimated in terms of the internationalisation of the economy."[39] The Cabinet, against the better judgement of many of its members, was eventually bludgeoned into supporting Keating's preferred model of a consumption tax, the so-called 'Option C'. Whilst Keating aimed to reform Australia's taxation system along the lines recommended by economic liberals within the Treasury and the academy, Hawke remained conscious of the electoral implications of major policy changes. Hawke may have been committed to economic liberal reform, but he was also committed to re-election. Despite his poor performance in the 1984 election campaign, Hawke remained more attuned than Keating to the electoral consequences of Government policy.[40] Despite Keating's claims that he was running the country from 1984 onwards, the defeat on tax indicated that he did not fully control the Government's economic agenda.

As the recovery from recession proceeded, the Government turned its mind to Australia's structural economic problems. The difficulties confronting the Australian economy in the early 1980s were increasingly blamed on Australia's protectionist policy structure which, it was argued, had led to an uncompetitive, insular manufacturing sector, a 'bloated' state sector, and a plethora of microeconomic inefficiencies. The Government increasingly asserted that protectionism was preventing necessary adjustment to changes in the world political economy and exacerbating Australia's vulnerability.[41] The aim was to create "a more dynamic and outward looking economy," which meant an abandonment of insularity and an engagement with the Asian region and the wider global economy.[42] Substantive change, Hawke maintained in 1985, had already begun:

> We have encouraged industry and commerce to become more robust and internationally competitive, more export-oriented, more willing to seek out market opportunities, more

39 Kelly, *The End of Certainty*, p. 156.

40 See Edwards, *Keating*, ch. 9.

41 See for example R. J. L. Hawke, "Industrial Relations and Economic Policy" in *National Reconciliation: The Speeches of Bob Hawke Prime Minister of Australia*, Melbourne, Fontana Collins, 1984, p. 179 and "Stan Kelly Memorial Lecture" (5 September 1985) *Commonwealth Record*, 2-8 September, 1985, p. 1516; Paul Keating, "Traditions of Labor in Power: Whitlam and Hawke in the Continuum," *Traditions for Reform in NSW*, Sydney, Pluto Press, 1987, p. 184. See also Ann Capling and Brian Galligan, *Beyond the Protective State: The Political Economy of Australia's Manufacturing Industry Policy*, Melbourne, Cambridge University Press, 1992; Stephen Bell, *Australian Manufacturing and the State: The Politics of Industry Policy in Australia*, Melbourne, Cambridge University Press, 1993.

42 The quote is from Hawke, "Stan Kelly Memorial Lecture," p. 1518. These sentiments were expressed regularly and from very early on by the most influential members of the Government. See for example R. J. L. Hawke, "Prime Minister's Speech to the Washington Press Club" and "Prime Minister's Speech to the Foreign Policy Association," *Australian Foreign Affairs Record*, June 1983, pp. 267-279; "Speech to National Press Club" (29 November 1984) *Commonwealth Record*, 26 November-2 December, 1984, p. 2503; John Button, "Speech to Regional Economic Symposium" (7 May 1984) *Commonwealth Record*, 14-20 May, 1984, p. 877. John Dawkins, "Export Consciousness Seminar" (23 April 1986) *Commonwealth Record*, 21-27 April, 1986, pp. 638-640.

> ready to take advantage of developments in technology and modern business practice, and less reliant on government assistance and intervention.[43]

Although financial liberalisation, spending cuts and vehement criticism of protection provided an indication of the Government's economic liberal agenda, assessments of its policy stance in the early years of office are complicated by the existence of competing interventionist programmes. There were policy decisions to please economic liberals, but there was also the development of sectoral industry policies, the Accord and social reforms such as Medicare.[44] The Government needed to manage politically as well as economically and to be aware of domestic as well as international exigencies. Although the political key to understanding the ascendancy of economic liberalism within the Government was the alliance between the Centre-Left and Right factions and the commonality of purpose between the key Ministers, John Dawkins, Peter Walsh and Keating, opposition within the Government and Caucus placed a restriction on the pace and extent of economic liberal policy changes. Although comprehensively defeated at the Conferences of 1984 and 1986, the Left of the Party in combination with Hawke's electoral pragmatism, often stopped Keating from going further and faster down the economic liberal path. Undoubtedly, however, the overall framework of gradual liberalisation had the effect of wearing down opposition to policies that in the early years of Government would have caused widespread revolt within the labour movement. This was especially the case with the shift to privatisation.

The economic crisis of 1986 provided another important indication of the economic liberal policy direction. After three years in office and the restoration of growth to the Australian economy, the Government faced a terms of trade crisis and the accompanying dilemmas of an expanding current account deficit, increased foreign indebtedness and currency depreciation.[45] Australia's vulnerability to a changing world political economy re-emerged as the fundamental issue of Australian public policy. In contrast to past reassertions of the protectionist framework in times of increased economic vulnerability, the need to adjust to international developments and forces became the major focus of Government policy.[46] Not only did the Government reject increased protectionism, but it also eschewed the option desired by the union movement of developing comprehensive and strategic industrial development policies.

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43 R. J. L. Hawke, "Speech to National Press Club" (5 March 1986) *Commonwealth Record*, 3-9 March, 1986, pp. 285.

44 Rolf Gerritsen and Gwynneth Singleton, "Evaluating the Hawke Government's Industry Agenda: Democratic Economic Planning Versus Economic Rationalism" in Brian Galligan and Gwynneth Singleton (eds), *Business and Government Under Labor*, Melbourne, Longman Cheshire, 1991. See also Capling and Galligan, *Beyond the Protective State*.

45 The crisis and the issue of the current account deficit are discussed in greater detail in the following chapter.

46 See for example R. J. L. Hawke, "Address to the Nation on Economic Situation" (11 June 1986), *Commonwealth Record*, 9-15 June, 1986, pp. 948-955.

Despite continuing tensions within the Party about the direction of economic policy, the economic difficulties of 1985-1986 reinforced the Government's belief that fundamental economic restructuring was unavoidable and that economic liberalism was the only realistic policy response.[47] The crisis provided opportunities as well as constraints, enabling the Government to sell the 'tough decisions' of decreased public spending, liberalisation of foreign investment regulations and reductions in real wages.[48] Keating's drastic reference to Australia becoming a 'banana republic' was only the most widely reported statement. Hawke's and Keating's rhetorical responses to the economic crisis of 1986 reinforced earlier rhetoric about policy 'imperatives' imposed by the world political economy, in regards to financial liberalisation. Although the crisis passed, the current account deficit remained as an important policy problem for the Government, providing a continuing indication of its failure to *effectively* restructure the Australian economy. The deficit gradually improved in 1987, but the loosening of monetary policy in response to the stock market crash of October 1987 led to an expansion of demand and a subsequent worsening of the deficit over 1988 and 1989.

Also integral to the Government's efforts to solve the current account problem was the attempt to improve the international competitiveness of Australian industry via the coercive mechanism of tariff cuts. In its first years of office, the Government had developed industry plans that attempted to restructure or at least manage the decline of inefficient firms and industry sectors. The process of industry restructuring had to be gradual at first because of the Government's union affiliations and because immediate tariff reductions would have meant widespread industry failures.[49] By the late 1980s the Government had spent considerable effort persuading Australian industry and workers to accept that a comprehensive shift away from protectionism was fundamental to the effective restructuring of the Australian economy and hence future economic growth. The historic shift to reduce tariff protection was begun in earnest with the tariff reductions of May 1988.[50] Over virtually the whole of 1991, the Government was sidetracked by the debilitating leadership contest between Hawke and Keating, but in March, Hawke released one of the most important policy statements of Labor's 13

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47 See for example Keating, *Budget Speech 1986-87*. See also the relevant sections of Hawke, *The Hawke Memoirs*; Edwards, *Keating*, and Peter Walsh, *Confessions of a Failed Finance Minister*, Sydney, Random House, 1995. See also the account of the crisis in Kelly, *The End of Certainty*, ch. 11.

48 Both Keating and Hawke constantly referred to the 'tough' or 'hard' decisions that the Government could not avoid. See for example Hawke, "Address to the Nation on Economic Situation" p. 949; Paul J. Keating, "Economic Context of Premiers' Conference" (13 June 1986), *Commonwealth Record*, 9-15 June, 1986, p. 961.

49 The Government's industry and trade policies are discussed in greater detail in the following chapter.

50 Paul J. Keating, *Economic Statement, May 1988*, Canberra, AGPS, 1988.

years of office. The measures outlined in *Building a Competitive Australia* significantly cut tariffs, even in the sensitive car and textiles, clothing and footwear industries, and despite the recession. The 1991 statement secured economic liberalism as the dominant element in the Government's overall economic policy stance. Australia, Hawke argued, had to adjust in an economically liberal way because the interventionist alternative was simply a different version of the discredited protectionist policy strategy.[51]

With tariff reform set in place by the early 1990s, the Government intensified its earlier emphasis on other aspects of economic reform. Hawke had flagged the importance of microeconomic reform in 1986, when he argued that:

> Of course export-oriented strategies are not just about exports . . . inefficiencies in any sector of the economy can hamper Australia's trading performance overall. So an essential part of our thrust to internationalise the Australian economy has been a series of initiatives to lift the performance of all sectors of the economy - whether directly involved in trade or not.[52]

In July 1987, the public service had been comprehensively recast along managerialist lines and, soon after, the Government restructured the higher education sector reintroducing tuition fees, albeit in the form of a deferred payment scheme. The welfare system was also considerably streamlined. To cut back on spending, the Government removed benefits for the young unemployed and those who voluntarily left work, means-tested the family allowance and generally tightened and targeted social payments. Also, as Bryson points out, surveillance was intensified and "eligibility increasingly linked to explicit demonstrations of commitment to labour force participation."[53] Keen to establish his credibility as tough on welfare, Hawke claimed in 1989 that "the era of profligate welfare handouts has long gone."[54] Perhaps the most significant turnaround, however, came in the area of privatisation. Earlier Government criticisms of privatisation fell by the wayside as it continued its economic liberal push.[55] Under pressure from business to offset declining protection, the Government argued that inefficiencies in all sectors of the economy had to be addressed.[56] From the late 1980s, substantive changes were also made on the waterfront, in the agricultural,

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51 Bob Hawke, *Building a Competitive Australia*, Canberra, AGPS, 1991, p. 1.7.

52 R. J. L Hawke, "Speech to Business Council of Australia," (17 September 1986) *Commonwealth Record*, 15-21 September, 1986, p. 1598. See also R. J. L. Hawke, "Speech by the Prime Minister: Business Council of Australia," Sydney, 11 October, 1988.

53 Lois Bryson, "The Welfare State and Economic Adjustment" in Stephen Bell and Brian Head (eds), *State, Economy and Public Policy in Australia*, Melbourne, Oxford University Press, 1994, p. 292.

54 R. J. L. Hawke, "Speech by the Prime Minister: *Australian Financial Review* Post-Budget Dinner," Melbourne, 16 August, 1989, p. 8.

55 For earlier criticisms of privatisation, see R. J. L. Hawke, "Inaugural 'The Light on the Hill' Lecture," (21 September 1985) *Commonwealth Record*, 16-22 September, 1985, p. 1618; John Dawkins, *Canberra Bulletin of Public Administration*, XIII(1), 1985, p. 31.

56 Hawke, *Building a Competitive Australia.*

transport, and telecommunications sectors, and in competition policy.[57] The Government's growing focus on microeconomic reform was vital to 'prove' to business that the Government was serious about reducing business costs and impediments and generally providing the right 'climate' for investment.

In the late 1980s, in response to the stubborn current account deficit problem and high inflation, monetary policy was tightened in an effort to stem 'excessive demand' and growing speculative excesses. At the same time, the Government shifted towards a budget surplus, a move that was at least partly in deference to the 'twin deficits' thesis which claimed that a lower budget deficit would lead to a lower current account deficit. Despite considerable pressure from the Caucus and from the union movement, the Government continued to reject alternative policy frameworks.[58]

As the high interest rate policy began to bite, even members of Cabinet became alarmed at the Government's policy stance. But, according to Industry Minister, John Button and Attorney General, Michael Duffy, Hawke and Keating and their advisers simply would not listen to stories of economic difficulties and impending recession. In hindsight, Keating argued that all the bureaucratic advice he received downplayed the possibility that the slowdown would turn into a recession.[59] But it was he, as much as, if not more than, his policy advisers, who was determined to maintain policy discipline.[60] In the aftermath of the 1990 election victory, Keating's policy stance was proved both right and wrong. He was right in his assessment that the Government could win the 1990 election despite high interest rates and a generally tough economic policy stance. He was wrong, however, in his belief that the economy would be slowed to a 'soft landing'. The recession of the early 1990s was the most severe since the Great Depression and it had been the Government's economic liberal policy rigidity that had exacerbated the extent of the downturn.

In words that were later to be used by the Coalition against the Government in the 1993 election campaign, Keating attempted to stress the 'benefits' of the recession:

> It is a recession that Australia had to have. The Government would not have inflicted this pain on itself, or the community, unnecessarily. The unsustainability of spending in

57 See John Quiggin, *Great Expectations: Microeconomic Reform and Australia*, Sydney, Allen & Unwin, 1996.

58 ACTU/TDC, *Australia Reconstructed*, Canberra, AGPS, 1987; Peter Ewer, Winton Higgins and Anne Stevens, *Unions and the Future of Australian Manufacturing*, Sydney, Allen & Unwin, 1987. For Keating's response, see Paul J. Keating, "Address to the Australian Financial Review Luncheon," 21 June, 1989, p. 12. Compare Button's scepticism about the guiding economic theories. John Button, "The Hawke Government's Initiatives and Strategies for Growth - Address to the Australian Financial Review Conference 'Industry Policy and the Hawke Government'," 14 July 1989.

59 ABC Television, *Labor in Power*, 1993.

60 See especially the account in Edwards, *Keating*, chs. 11-13.

> the economy over the past couple of years had to be slowed. This has now been accomplished but without the devastation that occurred with the 1982/83 recession. . . . [W]hile the slowdown will inevitably affect the labour market and growth in the short-term, it will set Australia up for much longer-run success.[61]

The tough decisions the Government had prided itself on had extended to the toughest of all - the creation of recession with all the concomitant pain of business failure, unemployment and social dislocation. Although the recession had international dimensions, such as a decline in worldwide demand for Australian exports, the tight monetary policy was the most significant factor in the timing and subsequent depth of the recession.

Whilst acknowledging the pain of the recession, the Government attempted to justify its policy stance by focusing on the ongoing need to restructure the Australian economy in the face of global 'imperatives'. The world, Hawke continued to assert, did not owe Australians a living:

> this tough, increasingly competitive world of five and a half billion people does not owe, and will not give, seventeen million Australians an easy prosperity. The days of our being able to hitch a free ride in a world clamouring, and prepared to pay high prices, for our rural and mineral products, are behind us. *From this fact flows everything else.*[62]

In the wake of Keating's unsuccessful challenge for the Prime Ministership against Hawke, the 1991 Budget, delivered by the new Treasurer, John Kerin, did not resort to a large fiscal stimulus, despite the increasing evidence of the recession's severity. Although the Government pushed the Budget back into deficit, Hawke argued that the Government "was not persuaded by arguments calling for us to spend our way out of the recession."[63] Kerin justified the stance by arguing that there was a danger in over stimulating an economy that was already recovering.[64] The fact that the Government was willing to err on the side of caution, despite increasing evidence of the recession's depth, was another indication of the extent of the Government's conversion to economic liberalism and ideas about 'sound finance' and 'twin deficits'. Not surprisingly, the reaction of many within a labour movement already polarised by the Hawke and Keating split was negative, with many believing that the Government should have been doing more to compensate for the recession.

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61 Paul J. Keating, "Statement by the Treasurer: September Quarter Accounts," 29 November, 1990, p. 1.

62 Bob Hawke, Paul Keating and John Button, *Building a Competitive Australia*, Canberra, AGPS, 12 March, 1991, p. 1.1. Emphasis added.

63 R. J. L Hawke, "Financial Review Dinner Address by the Prime Minister," Sydney, 21 August, 1991, p. 4.

64 John Kerin, "Speech by the Treasurer to the National Press Club," Canberra, 21 August, 1991, p. 2.

In December 1991, Keating replaced Hawke as Prime Minister and immediately set about reinvigorating the Government's electoral chances by distinguishing Labor from the Coalition under John Hewson. In Keating's *One Nation* economic statement, delivered in February 1992 and designed to combat the Coalition's *Fightback!* manifesto, the Government advertised a shift to increased public investment, subsidies for private investment and an abandonment of the surplus that had been generated in the late 1980s.[65] Concerns were soon raised that Keating had shifted the Government's position back towards Keynesian expansionism, interventionism and even protectionism, in an attempt to hasten the recovery from recession and to improve Labor's chances of winning the 1993 election.[66] The extent of Keating's change in direction, however, should not be exaggerated. The fiscal measures outlined in *One Nation* were reasonably modest given the depth of recession. The $2.3 billion of funds for public works, for example, were allocated over a 20 month period and were never fully utilised.[67] And, rather than reinvigorating protection, Keating simply maintained that there were no further reductions of tariffs in the pipeline. More importantly, perhaps, Keating did not turn his back on what he considered to be the achievements of the 1980s:

> The recession has set us back, but we will not allow it to stop the clock. In the last two years Australia has lost a tenth of the economic growth we made in the 1980s. We have lost two out of every seventeen jobs we created in the 1980s. We have lost one fifth of the gains in average incomes we made in the 1980s. The loss has been severe, but we can make it up by building on the strong foundations we have laid down.[68]

Because the Opposition's policy programme involved a substantial shift to the Right, the Government did not need to move to the Left to maintain the centre-ground of Australian politics.

The Hewson-led Coalition and the *Fightback!* and *Jobsback!* policy documents made an unpopular Prime Minister and a contentious globalisation project appear attractive. The Coalition's harder version of economic liberalism and globalisation and Keating's rhetorical shift to nation-building and 'social democratic' change provided the necessary product differentiation to generate a Labor victory at the March 1993 Federal election. But the mistake of the Government was to see the election victory as a Keating miracle rather than a Hewson debacle. Assured that the victory signalled an acceptance of Labor's globalisation project and social democratic economic liberalism, Keating abandoned his more moderate rhetoric and gradually reverted to a policy

65 Paul J. Keating, *One Nation*, Canberra, AGPS, 1992.
66 See for example Tim Duncan, "The Pandora's Box of Protectionism," *Australian*, 25-26 April, 1992, p. 20. Laura Tingle, "Keating Backflip on Tariffs," *Australian*, 27 March, 1992, p. 1.
67 Battin, *Abandoning Keynes*, pp. 115-116.
68 Keating, *One Nation*, p. 4.

programme emphasising Australia's place in Asia and the wider world economy and the benefits of constant change.[69]

Concerns (or hopes) about policy reversal, then, were negated soon after the election. In a speech to the Institute of Company Directors, Keating outlined the Government's continuing faith in the economic liberal policy direction.[70] He signalled that the shift towards enterprise bargaining would be accelerated and that an interventionist industry policy was not on the agenda. Although Keating's speech was received unfavourably by the union movement, the Government maintained its endeavour to liberalise the labour market. Despite arguments from business that progress was too slow and that the form of enterprise bargaining was biased towards the union movement, the shift away from the centralised system and the Accord had been extensive. The move to enterprise bargaining removed an important anomaly to the Government's general embrace of economic liberalism.

In 1994, the Government attempted to do something about the continuing high levels of unemployment. The resulting White Paper, *Working Nation*, despite the fanfare, was a fairly modest response to the continuing high levels of (particularly, long-term) unemployment. In combination with the liberal industry policy part of the statement, the measures outlined did not signal a shift in policy direction. The Government rejected the idea of a jobs levy to fund increased spending on the unemployed and the spending that was committed was restricted by Government concerns about financial market reactions.[71] As Battin points out, the level of new spending was considerably exaggerated: "Of the $6.5 billion boasted, approximately $3 billion was necessary simply to reverse (to some extent) the reduction in labour market programmes and infrastructure cuts while another $3 billion was transferred from (already allocated funds in) social security to employment and training activities."[72]

In relation to trade and foreign affairs, Keating intensified Hawke's earlier emphasis on Australia as part of the Asia-Pacific Region. In particular, he stressed the importance of the Asia Pacific Economic Forum (APEC) for Australia's economic future, describing the outcome of the 1994 APEC leaders' meeting in Bogor, Indonesia, where leaders committed to free trade by early in the twenty-first century, as "the most important

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69 See for example Paul J. Keating, "Speech by the Prime Minister, 'Australia and Asia: Knowing Who We Are', Lecture to the Asia-Australia Institute," Sydney, 7 April, 1992.

70 For an edited transcript see Paul J. Keating, "It is Possible We Are Now Within Reach of a New Era of Prosperity," *Australian*, 22 April, 1993, p. 4.

71 Tom Conley, "Magic Markets," *Arena Magazine*, October-November, 1995.

72 Battin, *Abandoning Keynes*, p. 117.

thing I have ever done."[73] Australia needed to embrace free trade, Keating and the Government argued, through both multilateral and regional forums.[74] In a lecture delivered in Singapore, Keating stressed that foreign and domestic policy were now inextricably intertwined: Australia, he asserted, could no longer enact domestic policies without considering their effect on Australia's position in the world economy or on its external relations.[75] This was a further reason why it was necessary for Australia to abandon the protectionist policy structure, to redress the injustices done to the aborigines, to become a republic and to find its place in the "East Asian hemisphere."[76] Alongside Keating's commitment to globalisation and regionalism was a reassertion of Australian nationalism through Republicanism. Rather than lessening Australia's independence, Keating declared that Labor's policy changes had increased it by improving Australia's position in the world: "When I use the word 'independent', I mean a sense of responsibility as much as a sense of pride. I mean taking responsibility for our own destiny."[77] In his speech announcing the 1996 election, Keating insisted that:

> This will be an election about leadership. We seek a further mandate for the Government that has given Australia an increasingly creative role in the world; that has created an outward-looking, diverse, competitive and successful trading economy.[78]

Why Economic Liberalism?

> Ultimately, Labor accepted the logic of financial markets, the advice from its central economic departments and the prescriptions of the OECD.[79]

> Policy requires politics. Ideas for solving economic problems are plentiful, but if an idea is to prevail as the actual policy of a particular government, it must obtain support from those who have political power. . . . There is a famous story about the Hawley Smoot Tariff Act of 1930 which bears repeating. About a 1000 economists, virtually the entire American community of professional economists at the time, signed a petition opposing the tariff on the grounds that it violated the principle of comparative advantage

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73 Keating, cited in Geoffrey Barker, "Bogor Unearths Dangers for Keating," *Australian Financial Review*, 16 November, 1994, p. 11. See also Paul Keating, "Triumph for Trade and Co-operation," *Australian*, 17 November, 1994, p. 9.

74 See for example Paul Keating, "Our Nation's Future Lies in Liberalising the Market," *Australian*, 14 November, 1994, p. 3.

75 Paul J. Keating, "The Singapore Lecture: 'Australia and Asia and the New Regionalism'," Singapore, 17 January, 1996, p. 2.

76 Ibid. See also Greg Sheridan, "Keating Takes Cue Astride World Stage," *Australian*, 27-28 January, 1996, p. 4; Don Greenlees, "Keating's Asian Gamble," *Australian*, 20-21 January, 1996, p. 25.

77 Paul J. Keating, "Statement by the Prime Minister: The Australia Singapore Business Seminar," Singapore, 25 September, 1992.

78 Paul J. Keating, "Mandate Sought to Continue Growth," *Australian*, 29 January, 1996, p. 2.

79 Kelly, *The End of Certainty*, p. 219.

> and thus hurt the general welfare. Congress ignored their advice. Hawley Smoot raised tariffs on virtually everything manufactured within the United States.[80]

The reasons behind the shift to economic liberalism and the comprehensive abandonment of Australia's protective policy structure during Labor's 13 years of government have received much attention from Australian political and economic commentators. In this literature (and in the wider international debate) there are several important dichotomies that are used to understand policy change: ideas versus interests, society versus state, strategy versus contingency, international versus domestic. Scholars in the social sciences have long attempted to develop parsimonious theory, reducing complex political, economic and social developments to singular axiomatic explanations.[81] Against such reductionist thinking, this section argues that we need to incorporate a wide range of factors and consider both sides of often artificial dichotomies. In response to multiple pressures, the Labor Government and the economic policy-making components of the state apparatus supported and enacted economic liberal policies because they were seen to provide an economic and political solution to Australia's structural economic problems in a changing world political economy. Economic liberalism provided a coherent strategy for the state to weave between the often competing pressures of the domestic and international domains.

Pusey's widely read and equally widely criticised study, *Economic Rationalism in Canberra*, is perhaps the best known point of departure for understanding the shift to economic liberalism in Australia.[82] Pusey attacked the narrow economic liberal bias of bureaucrats, especially in the central 'co-ordinating' departments of the Australian public service. The bias of bureaucratic policy-makers "from privileged backgrounds," assisted by an economics profession with a restricted focus on neo-classical economics was, Pusey argued, a fundamental cause of the shift in economic policy away from "nation-building" Keynesianism.[83] As he explains:

> The aggressive economic rationalism of the central agencies is clearly the vocabulary of a new *laissez-faire* minimalist state. It has no historical memory and it is either asocial or anti-social. It is quickly burying the interventionist state of the market oriented departments. . . . The pragmatic Keynesian liberalism of the older and mainly post-war interventionist state - a state that shared a long-established partnership with capital at the

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80 Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises*, Ithaca, Cornell University Press, 1986, pp. 17 & 54.

81 See for example Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Cambridge, Harvard University Press, 1965.

82 Michael Pusey, *Economic Rationalism in Canberra: A Nation Building State Changes its Mind*, Cambridge, Cambridge University Press, 1991. Despite getting considerable media coverage such arguments were generally ignored by the Government who saw such criticisms as a hankering for a past that was no longer viable given globalisation. The critique of economic rationalism was well received on the Left of the ALP, but it was the Right and Centre of the Party that prevailed.

83 For another argument about the importance of economic education in universities, see Stretton, *Political Essays*, p. 202-209.

> operating level of industry - was clearly losing all the arguments with the conquering young rationalists from the central agencies.[84]

The attitude and commitment of the bureaucracy in the 1980s was compared unfavourably with the post-war generation of "committed centrists."[85] And the Hawke Government was compared unfavourably with the ghost of the Whitlam past. In many ways, Pusey's analysis comes across as an 'instrumentalist' account of economic change, with the 'background' and 'attitudes' of public servants given pre-eminence. But, given the focus of the study on interviews with senior public servants, it is perhaps not surprising that they end up dominating the argument about the reasons behind the adoption of economic liberalism.

Pusey alleges that there was "a new intimacy of mutual understanding between senior public servants and ministers," which, he contends, "is partly because positivist economics has, so quickly and without precedent, become the most commonly shared educational experience . . . that probably transcends differences in social class backgrounds."[86] Whilst acknowledging the "compatible assessments of Australia's economic position," by ministers and bureaucrats, Pusey underplays the importance of the Government, particularly the key players - Keating, Hawke, Dawkins and Walsh - in the economic liberal shift.[87] Right from the beginning of office the Government was determined to shift the tenor of Labor policy advice away from the Keynesianism and protectionist past. As Hawke contends:

> With the deficit blowing out to record levels, big-spending Keynesian economists were not the need of the day. Over the coming weeks there would be some skirmishing between market-oriented economists and traditional Keynesians, but in my mind the debate was already over.[88]

Although this reflection could be considered an attempt by Hawke to mark out for himself more of the credit for his Government's policy direction, as the first section of this chapter and the following chapter reveal, both Hawke and Keating were determined from the first days of office to demolish the perception that the Labor Party was economically, especially fiscally, 'unsound' and 'unfriendly' to business. Whilst Pusey is correct to point out the dominance of economic liberal policy advice, it is still necessary to consider why the Hawke Government should have actively encouraged the ascendancy of economic liberals within the state apparatus and why it willingly and (for some more than others) enthusiastically embraced an economic liberal agenda. We

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84 Pusey, *Economic Rationalism in Canberra*, p. 107.
85 Ibid., 159-169.
86 Ibid., pp. 189-190.
87 Although John Button and John Kerin were obviously important players in the debate on economic policy and were adamant about the need for Australia to shift to an outward focus, both were far less enamoured with economic liberal solutions to Australia's structural economic problems.
88 Hawke, *The Hawke Memoirs*, p. 153.

need to note, as does Schott, that: "Market-oriented economic policy does not get implemented simply because one hundred smart economists in Canberra think it's a great idea."[89]

The Government did not act on all the advice given to it by its bureaucratic advisers even if it was receptive to the broad thrust of their analysis, which was that the progressive adoption of economic liberal policies and the rejection of new styles of strategic intervention was the most appropriate response to solve Australia's economic woes in a globalising world political economy. Sections of the bureaucracy, though agreeing on the need for outwardly-focused economic policy change, differed on the most appropriate economic strategy. The industry departments differed in their policy emphases to key economic departments and the various advisory bodies, such as the Industry Commission and the Bureau of Industry Economics. Significant modifications were often made to policies suggested by the more economically liberal sections of the state. This was partly at the urging of more interventionist-minded members of the Government such as the industry Ministers, John Button and John Kerin and their departments, and partly at the urging of other members of the Government aware of the electoral dangers of a rampant and uncompensated economic liberalism.

As will be discussed in greater detail in chapter 7, the Government realised that there was a need, on occasions, for a more moderate rhetoric and more gradual economic policy shifts, given that the 'vested interests' referred to by economic liberals generally included - often explicitly - the labour movement and significant sections of the electorate. The purist economic liberal and public choice approach of the Industries Assistance Commission (and its later variation, the Industry Commission), although useful for forcing the pace of liberalisation when evidence was needed to support the decision-making process, at other times needed to be tempered in the interests of electoral politics. The embrace of economic liberalism, especially tariff liberalisation needed to be managed to avoid a political backlash that would sweep Labor out of office.[90] Rather than being beholden to economic liberal policy advisers, the Government often used their advice strategically - either to back preferred policy aims or to distinguish its policy stance from a more vehement advocacy of economic liberalism. Keating, not surprisingly, believed that the impetus for change came from the Government:

> Change cannot come from the bureaucracy no matter how well motivated, or gifted, because the bureaucracy has no authority to rank priorities or make decisions. Nor can change come from the media and the opinions of columnists no matter how eminent. In

89 Kerry Schott, "Economic Rationalism in Canberra," *Current Affairs Bulletin*, 68(7), 1991, p. 30.
90 Francis Castles and Jenny Stewart, "Industrially Sustainable Development" in Ian Marsh (ed), *Governing in the 1990s: An Agenda for the Decade*, Melbourne, Longman Cheshire, 1993.

> the end, politicians have to have the foresight to see the need for change and the courage and strength to carry it through.[91]

Reference to and usage of economic expertise and advice plays an important part in state strategies of persuasion. Particular technical knowledges, by excluding variables and privileging particular information and values, may be used to depoliticise policy choices. As Miller and Rose argue, the norms and values of the "language of expertise" seem compelling "because of their claim to a disinterested truth and the promise they offer of achieving desired results."[92] But this is not a recent phenomenon, nor is it one peculiar to the uptake of economic liberalism.[93] Given that it is not surprising that complex economic problems require technical proficiency or expertise, the more important question is why previously predominant Keynesian and protectionist forms of expertise were replaced by economic liberal forms.

Although it is often in times of uncertainty that the influence of ideas is greatest, we still need to determine what causes the acceptance of certain ideas over others.[94] Ideas about policy work alongside economic and political legacies, perceptions of interest (including those of policy-makers), power relationships and an overall structural context that makes certain ideas appear more viable than others. For a Labor Party determined to stay in office for a longer period than earlier Labor Governments, a break from the past was seen as particularly important. The Whitlam years were seen as a lesson about what not to do when in government and perceptions of its economic and political failures were important in shaping the policy agenda of the Hawke Government.[95] The Whitlam Government, Keating argued, had taken continuing economic prosperity for granted and the Hawke Government would have to establish itself as competent economic managers if it was to remove the negative aspects of the Whitlam legacy.[96]

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91 Paul Keating, "The Challenge of Public Policy in Australia," *Canberra Bulletin of Public Administration*, 65, July 1991, p. 17.

92 Peter Miller and Nikolas Rose "Governing Economic Life," *Economy and Society*, 19(1), 1990, p. 10. See also Nikolas Rose, "Government, Authority and Expertise in Advanced Liberalism," *Economy and Society*, 22(3), 1993.

93 See for example Jo-Anne Pemberton, "Inventing 'The Economy'" in David Headon, Joy Hooton and Donald Horne (eds), *The Abundant Culture: Meaning and Significance in Everyday Australia*, Sydney, Allen & Unwin, 1995.

94 Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," *Comparative Politics*, 25, April, 1993; John Kurt Jacobsen, "Much Ado About Ideas: The Cognitive Factor in Economic Policy," *World Politics*, 47, January, 1995.

95 Hawke Government Minister, Susan Ryan, said that to be called an 'unreconstructed Whitlamite' was one of the most common and most vehement insults from the economic ministers of the Government. See ABC Television, *Labor in Power*, 1993.

96 Paul J. Keating, "Traditions of Labor in Power; Whitlam and Hawke in the Continuum" *Traditions for Reform in NSW*, Sydney, Pluto Press, 1987.

The management of interest groups and the avoidance of concerted business opposition was seen as integral to maintaining office.[97] The Government's attempts to keep business onside shaped perceptions about what sort of policies were considered viable from the earliest stages of government. Such a move, McEachern argues, was evidence of a 'new realism' within the leadership of the Labor Party, an awareness of the structural power of business.[98] Particularly important was the belief that the financial sector needed to be managed to avoid adverse and destabilising reactions; keeping the financial markets favour, therefore, was seen as a pivotal component of the Government's strategy.[99] After the Leftist possibilities of the Accord had been neutered at the National Economic Summit and the pro-market agenda established by the float of the dollar and the removal of exchange controls, the Government maintained a framework within which comprehensive business opposition was kept to a minimum.

States, as many Marxists have noted and many social democrats have found to their dismay, are heavily reliant on the private sector to maintain investment - the precondition for continuing growth. Particularly in periods of economic difficulty, policy-makers must spend considerable time and effort constructing the economy as the pivot around which all other issues must turn. Given such constructions, if major business actors become critical of government policy, this is bound to damage wider business confidence and to have significant electoral effects. Business confidence underpins future investment which, in turn, underpins the generation of the growth which is the grist to the mill of electoral politics. Governments will always be uncertain how their economic policies will work and how economic actors will respond, but the process of governing will be less problematic if governments do not antagonise powerful economic actors. State perceptions about the preferences of important economic actors, therefore, shape the process of developing strategies for both growth and re-election.

Policies seen by business as supportive, however, are not necessarily coterminous with economic liberalism, especially in relation to the world economy. The discussion of the protective policy structure in the previous chapter provides considerable evidence of this fact, at least in Australia. A significant section of business in Australia believed only in a free market within the borders of Australia, with even this claim somewhat tenuous. Such attitudes were a problem for a Government which was determined from early on that protectionism must be eliminated. With the gradual nature of tariff reform

97 Greg Whitwell, "Economic Ideas and Economic Policy: The Rise of Economic Rationalism in Australia," *Australian Economic History Review*, 33(2), 1993, p. 23.
98 McEachern, "Taking Care of Business." See also McEachern, *Business Mates*.
99 This point is discussed in greater detail in chapter seven.

and adjustment assistance, Labor was able to placate some of the opposition from business, but perhaps more important was Labor's lack of any close ties to business. This latter fact was an advantage Labor had over the Liberals in restructuring the economy because it meant that the Government was not beholden to any particular business interests, especially those no longer seen as important for future economic growth.[100] Sections of business were not united over appropriate policy directions and, whilst alienating some sections of business with its removal of tariff protection, it also received enthusiastic support from globally-focused business.

The Government's globalisation and market rhetoric were important elements of Labor's efforts to maintain broad business support. Reductions in protection and concerns about the current account constraint on sustained growth, meant that business needed alternative measures to boost confidence, hence the Government's stress on the microeconomic reform agenda from the late 1980s. Overall, the Government wanted business and finance to believe that the policy structure would remain favourable to their interests. Financial market actors needed to be reassured that the Government would maintain its macroeconomic 'prudence'. In sum, the success of economic liberalism as an idea that was translated into policy action had much to do with its congruence with the interests of powerful economic actors.

Support for economic liberalism and globalisation did not just come from business actors. Despite continuing widespread support for protectionism, a considerable societal constituency existed for its abandonment. Wealthier sections of society wanted to see an embrace of economic liberalism generally, but especially in relation to taxation. Also important were consumer interests which continued to be scandalised by high levels of manufacturing tariffs. As Muetzelfeldt acknowledges, it is necessary to "examine the social context within which economic rationalism has been allowed to flourish."[101] As the image of the market permeated society and state and as market practices became more important as an organising principle for dealing with issues of distribution and public policy, more people began to see their interests in terms of market relationships.[102] Market relationships provided new opportunities for sections of the population and, in many areas of public policy, were welcomed as a liberation from bureaucratic fiat and a lack of choice. But as Muetzelfeldt points out, choices remain delimited:

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100 Rick Kuhn, "The Limits of Social Democratic Economic Policy in Australia," *Capital and Class*, 51, Autumn, 1993. Labor was, however, connected to the unions representing workers in these industries.

101 Michael Muetzelfeldt, "Economic Rationalism in its Social Context" in Michael Muetzelfeldt (ed), *Society, State and Politics in Australia*, Sydney, Pluto Press, 1992, p. 187.

102 Ibid., pp. 190-191.

> Economic rationalist political discourse emphasises the freedoms and responsibilities that market and pseudo-market policy approaches devolve to people. But it equally de-emphasises the centralised strategic control of the meta-planners, the limited and tactical nature of the devolved freedoms and responsibilities, and the associated reduction of citizenship rights and political options that these policies produce. This discourse celebrates the hidden hand of the market, concealing the iron fist of strategic control within the velvet glove of devolved tactical responsibility.[103]

There were, then, important domestic factors underpinning the shift to economic liberalism. It is important, however, to go beyond a societal level of analysis to explain its rise. Although globalisation has become a simple explanation for economic liberalism, especially in government rhetoric, in many accounts of the Australian political economy during the 1980s and early 1990s the international context was either assumed to be important without detailed consideration of why this was so or simply ignored.[104] Few works attempted, as Ravenhill maintained in the early 1990s, to integrate the "relationship between economic structure, external economic influences and political structures."[105] In its early years, political economy analyses of the Hawke Government focused heavily on the implications of the Accord.[106] Particularly prominent was the debate over whether or not the Accord, the National Economic Summit and the various state sponsored tripartite bodies such as the Economic Planning Advisory Council (EPAC) represented a shift towards a corporatist policy structure.[107] Complicating the debate were the apparently competing elements of policy development during Labor's first two terms, perhaps best encapsulated by financial liberalisation and the Accord. Whilst many analysts downplayed the corporatist nature of the Hawke Government from early on, in the later 1980s the debate withered as the Government's economic liberal policy direction became clearer. Although much of this debate had an indirect international focus - whether Australian public policy patterns were becoming similar to those in Western Europe - the impact of the world economy remained relatively unexplored.

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103 Ibid., pp. 198-199.

104 In an otherwise excellent account of industry policy and the role of the state, Capling and Galligan open with an argument that: "The ability of Australia to maintain its position of protected privilege and relative affluence has been undermined by the impact of dynamic changes in the international order." Whilst this is a statement that shapes much of the narrative, it is an assumption that is not investigated in the text. Capling and Galligan, *Beyond the Protective State*, p. 1.

105 John Ravenhill, "International Political Economy: An Australian Perspective" in Richard A. Higgott and James L. Richardson (eds), *International Relations: Global and Australian Perspectives on an Evolving Discipline*, Canberra, Australian National University, 1991, p. 219. Ravenhill lists Castles' work as an important exception.

106 See for example Stilwell, *The Accord ... and Beyond.*

107 See for example Peter Loveday, "Corporatist Trends in Australia?," *Politics*, May, 1984. Randal Stewart, "The Politics of the Accord: Does Corporatism Explain It?" *Politics*, 20(1), May, 1985; Gwynneth Singleton, "The Economic Planning Advisory Council: The Reality of Consensus," *Politics*, 20(1), May, 1985; Rolf Gerritsen, "The Necessity of 'Corporatism': The Case of the Hawke Labor Government," *Politics*, 21(1), May, 1986; Doug McEachern, "Corporatism and Business Responses to the Hawke Government," *Politics*, May, 21(1), 1986.

Also concerned with Western European connections and the shift to economic liberalism was Castles' 1988 study, *Australian Public Policy and Economic Vulnerability*, which provided a comparative and historical analysis of the development of Australia's protectionist policy structure.[108] Whilst not explicitly examining developments in the world political economy, Castles saw the international context as shaping, but not determining, policy: hence the need to focus on domestic political struggles over policy development. Castles, however, only briefly dealt with the changes wrought by Hawke and Keating, bemoaning their failure to develop West European-like 'corporatist' policies of "domestic compensation" in place of the previous strategy of "domestic defence."

Higgott was one of the few political scientists to focus on the importance of external factors in pressuring changes to the Australian political economy and argued that "Australia's contemporary problems are of a structural and long-term nature and can be characterised by its increasing marginalisation *within* the global economic order."[109] Higgott's concern, as the title of his monograph suggests, was with the wider international context, in particular the shift to neo-protectionism, and its broad implications for Australia. Beyond the assertion that domestic adjustment was the only realistic response for a small country such as Australia, little consideration was given to the domestic economic response of the Hawke Government. The need for a comprehensive integration of the domestic and international domains remained.

David and Wheelwright also focused on the impact of the world economy, expanding on earlier efforts from Crough and Wheelwright and Catley and McFarlane which had provided Marxist analyses of Australia's position in the capitalist world system. Such efforts, however, tended to see Australia simplistically as a dependent or "client" economy and were often fairly blunt assertions of economic nationalism.[110] David and Wheelwright, for example, argued: "Countries such as Australia are being sold to those who have the most money; increasingly these are Japanese and other Asian

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108 Francis Castles, *Australian Public Policy and Economic Vulnerability*, Sydney, Allen & Unwin, 1988.

109 Richard A. Higgott, *The World Economic Order: The Trade Crisis and Its Implications for Australia*, Canberra, Australian Institute of International Affairs, 1987, pp. 11 & 45. Emphasis in original.

110 Abe David and Ted Wheelwright, *The Third Wave: Australia and Asian Capitalism*, Sydney, Left Book Club, 1989. See also Greg Crough and Ted Wheelwright, *Australia: A Client State*, Melbourne, Penguin, 1982; Robert Catley and Bruce McFarlane, *Australian Capitalism in Boom and Depression: Options for the 1980s*, Sydney, Alternative Publishing Company, 1981. Crough and Wheelwright wrote in 1982: "Today, for all practical purposes, Australia has been sold. There are, it is true, a few juicy portions still left - the banking sector, protected until now from foreign takeover, and parts of the public sector such as TAA, Qantas or Telecom which may yet be sold off - but most of the really profitable areas have already gone." Crough and Wheelwright, *Australia: A Client State*, p. 1.

capitalists."[111] The policy changes of the Hawke Government were seen to have been at the behest of international capital. "By allowing uncontrolled foreign investment, and by deregulating our economy," David and Wheelwright asserted that the Labor Government had "effectively allowed what sovereignty remained to be taken away from us."[112] Such studies were a curious mix of pessimism about the current state of affairs and optimism about the future possibilities of a Left alternative.

Notwithstanding these accounts of Australia in the world economy, in the early 1990s, Higgott drew attention to the continuing failure of Australian political scientists to analyse the international dimension, arguing that the "international background against which Australian economic policy has been made during the 1980s has received insufficient attention by the wider political science community concerned with the making of economic policy in Australia."[113] Although he argued that there had been a change for the better in the late 1980s, the slowness of political scientists to more explicitly consider the effects of the world political economy on policy was all the more remarkable given the continued reference of senior members of the Government and economic liberal policy commentators to the policy imperatives of the world economy.[114] Given the prevalence of the Government's rhetoric of globalisation, it is surprising that more attempts were not made to consider either the veracity of such assertions or their role in supporting and justifying the shift to economic liberalism.

Following the work of Ikenberry, Higgott argued that Australia, given its size and position in the world political economy, only had the options of offensive international and domestic adjustment.[115] The historical strategy of defensive domestic adjustment, Higgott contended, was not appropriate to deal with the challenges Australia faced in a changing world political economy.[116] Whilst arguing that offensive adjustment was the only viable choice for Australia, Higgott did not see the Government's policy direction as determined by international developments. Rather, he stressed that the success of the Government's reform programme was highly contingent on the maintenance of an open international economic order: "international economic policy needs to be seen as

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111 David and Wheelwright, *The Third Wave*, p. xv. See also M. T. Daly and R. J. Stimson, "Dependency in the Modern Global Economy: Australia and the Changing Face of Asian Finance," *Environment and Planning A*, 26, 1994.

112 David and Wheelwright, *The Third Wave*, p. 197.

113 Richard Higgott, "The Politics of Australia's International Economic Relations: Adjustment and Two-Level Games," *Australian Journal of Political Science*, 26(2), 1991, p. 6.

114 The prevalence of such references is revealed in the following chapter.

115 Ikenberry proposed a model of adjustment along two dimensions - international and domestic and offensive and defensive adjustment - to cover the forms of adjustment available to states. Offensive adjustment entails efforts to transform either the world (external) or domestic political economy (internal) and defensive adjustment entails efforts "to preserve existing arrangements" at either level. G. John Ikenberry, "The State and Strategies of International Adjustment," *World Politics*, 39(1), October, 1986, p. 58.

116 Higgott, "The Politics of Australia's International Economic Relations," p. 16.

integral to the wider process of economic reform and that success in the domestic adjustment process will be contingent on an accompanying process of international reform that is conducive to domestic strategy."[117]

If Castles and, to a lesser extent, Higgott, believed that choices were still available to policy-makers, this certainly was not the case for many other analysts. One of the most influential works, or at least one of the most widely read, on Australian politics in the 1980s was Kelly's *The End of Certainty*. Kelly argued that certainty for Australians, represented by what he called the Australian settlement, was gone forever because of developments in the world economy. The debate in Australia over economic policy, Kelly asserted, was between the "international rationalists and the sentimental traditionalists."[118] But really, there was no debate. Although there were choices to be made, for Kelly there was no 'real' choice: "Labor embraced an economic rationalist agenda not by choice but by compulsion."[119] The forces of the world political economy made economic liberal policy change inevitable and, once enacted, irreversible. Kelly makes no real attempt to explain the intricacies of the impact of the world political economy on the governing process. In his story of the 1980s, the Labor Government, dominated by Keating, had the strength of character to subdue and override the impracticality and sentimentality of the Left and of opponents generally of the economic liberal globalisation project. Ironically, given the title of the book, Kelly's certainty about the failures of the past, combined with certainty about the 'nature' and 'imperatives' of the global economy led to certainty about the only solution possible - economic liberalism. Kelly's position was representative of the argument of many economic liberal commentators and policy-makers.[120] The few explicit political economy analyses of the effects of globalisation on economic policy in Australia meant that determinist accounts such as Kelly's tended to be taken at face value by many writing on Australian politics, especially in the media.

Along similar lines to Kelly and focusing on the importance of contingent responses to crisis, Walsh argued that the Hawke Government simply adapted to the "cumulative effect" of economic pressures, where each policy phase was "shaped by pragmatic responses to changing economic and political circumstances."[121] In other words,

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117 Ibid., p. 21.
118 Kelly, *The End of Certainty*, p. 2.
119 Ibid., p. 209.
120 See for example Alan Wood, "Change Recognised the Inevitable," *Australian*, 9 December, 1993; Steve Burrell, "Welcome to the Global Marketplace," *Australian Financial Review*, 5 September, 1994, p. 16; Alan Mitchell, "Wins, Losses and Why Deregulation is Here to Stay," *Australian Financial Review*, 14 July, 1995, p. 54.
121 Cliff Walsh, "The National Economy and Management Strategies" in Brian Galligan and Gwynneth Singleton (eds), *Business and Government Under Labor*, Melbourne, Longman Cheshire, 1991, p. 36. Capling and Galligan cite Walsh's argument as providing the most "plausible" explanation for

circumstances forced economic liberal responses which, in turn, forced the Government to further liberalise. In relation to finance, the Government's policy-making was increasingly subject to critical evaluation and influence from the financial markets, which, according to Walsh, were "used by and required the government to secure substantial changes to economic policy direction."[122] This last point is especially pertinent and acknowledges the fact that policy-makers can find opportunities within international constraints. Walsh's argument is an important challenge to arguments that place political calculation and strategy to the fore. Whilst dealing with economic pressures and contingent crises was undoubtedly pivotal to the Government's choice of policies and acknowledging that strategy may be attributed to policy responses in hindsight, Walsh's argument downplays the Government's predilection to embrace economic liberalism in the first place. In effect, his argument also assumes that domestic policy responses were determined by the world political economy.[123]

Whilst commentators such as Kelly, Walsh and Valentine saw the policy changes in Australia as the inevitable result of globalisation, others such as Stretton, Emy, and Langmore and Quiggin argued that policy-makers had reneged on the state's responsibility to regulate the economy and protect citizens from the vagaries of economic change.[124] In the late 1980s and early 1990s a substantial group of political scientists and social commentators aligned to criticise Labor's economic rationalist policy direction. Not surprisingly, given the extent of policy consensus on protection during the post-war period, the anti-economic rationalism coalition included both the so-called 'Old Left and Old Right'. Scholars such as Robert Manne and John Caroll and social commentators such as Bob Santamaria joined in on the attack on economic rationalism.[125] These scholars, and others critical of economic policy under Labor, argued that developments in the world political economy in no way forced policy-makers to embrace economic liberalism. Stretton, in particular, argued strongly in the 1980s against financial liberalisation, the abandonment of protection and the general

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the adoption of economic liberalism. Capling and Galligan, *Beyond the Protective State*, pp. 124-125.

122 Walsh, "The National Economy and Management Strategies," p. 38. Kelly also argues that all the major 'economic rationalist' decisions of the early to mid-1980s were a response to crisis. Kelly, *The End of Certainty*, p. 226.

123 For a similar view, see Tom Valentine, "An Appraisal of Financial Deregulation" in Chris James, Chris Jones and Andrew Norton (eds), *A Defence of Economic Rationalism*, Sydney, Allen & Unwin, 1993, p. 38. See also Economic Planning Advisory Council, *Tariff Reform and Economic Growth*, Canberra, AGPS, 1996.

124 Stretton, *Political Essays*; Hugh Emy, *Remaking Australia; The State, the Market and Australia's Future*, Sydney, Allen & Unwin, 1993; John Langmore and John Quiggin, *Work for All: Full Employment in the Nineties*, Melbourne, Melbourne University Press, 1994.

125 See the essays in John Carroll and Robert Manne (eds), *Shutdown: The Failure of Economic Rationalism and How to Rescue Australia*, Melbourne, Text, 1992; Donald Horne, (ed), *The Trouble With Economic Rationalism*, Newham, Scribe, 1992. For a critique of this position, see Chris Jones, Chris James and Andrew Norton (eds), *A Defence of Economic Rationalism*, Sydney, Allen & Unwin, 1993.

embrace of economic liberal policies.[126] He emphasised that the Labor Government's response to Australia's economic problems was both unnecessary and inappropriate. Developments in the world economy enhanced the need to protect the domestic economy from destabilising forces, rather than forcing the government to liberalise. "The developing global economy," Stretton argued, was "more of a threat than a promise":

> Australia is one of the luckiest countries in its natural resources and - for a small population - its wide range of manufacturing capital and skills. We are better equipped than most, not to build a wall around fortress Australia, but to choose the balance of trade dependence and self-sufficiency that will serve our economic and social purposes best.[127]

Accordingly, the state should have adapted, but broadly maintained the protectionist policy structure that had served Australia well for most of its history.[128] Langmore and Quiggin were similarly critical of the shift to economic liberalism and paid little heed to the argument that globalisation was forcing economic liberal adjustment. Indeed, they gave little consideration to the international context at all, beyond arguing for a international tax on financial speculation. Emy directly addressed the international context and argued that although there was room for debate over how restructuring should proceed, there was no question that substantial restructuring was necessary: "Because we have a small and currently very vulnerable economy, we have to come to terms with globalisation. Opting out, or trying to recreate the conditions which existed prior to the 1980s is simply not an option."[129] Whilst arguing that Australia needed to move beyond the protectionist policy structure, Emy did not believe that economic liberal policy responses were forced by international developments, nor were they the most appropriate *choice*.[130] All of these scholars, although acknowledging to different degrees the importance of international pressures, continued to maintain that a focus on the domestic political economy remained pivotal and that states (and societies) could still choose alternative policy paths.

The literature explicitly considering Australia's place in the world political economy and, more particularly, the effects of globalisation has grown considerably during the 1990s as globalisation and the restructuring of the Australian economy were increasingly difficult to ignore. Harris, for example, argued that Australia really had no other choice but to adapt to imperatives of the international economy, but stressed, following Katzenstein and Castles, that governments needed to play a significant role in

126 Stretton, *Political Essays*.
127 Hugh Stretton, "Poor Laws of 1834 and 1996," *Quadrant*, December, 1996, pp. 15-16.
128 In addition to the above sources see also Hugh Stretton, "Whodunnit to Social Democracy?" Typescript, 1993.
129 Emy, *Remaking Australia*, p. 15.
130 Ibid., chs. 6, 7 & 8.

compensating the losers from change.[131] He also recognised the importance of policy-makers' persuasive efforts: "A critical role for government, then, is to establish an attitude that international change is inevitable and rapid."[132]

Particularly indicative of the growing importance of globalisation in framing political (economy) analyses were the essays in the edited volume *State, Economy and Public Policy in Australia.*[133] The revitalised focus on the international context is evident in chapters on widely divergent policy areas. Directly addressing Australia's position in the world economy and echoing earlier 'interventionist' critiques, Ravenhill argued that although globalisation made the protectionist policy response unviable, this did not mean that economic liberal policies were the best way to solve Australia's structural economic problems. Instead, a more sophisticated approach to industry policy was necessary.[134] Probert, utilising the work of Castells and Sassen, argued that restructuring in Australia and elsewhere needed to be seen as a part of a global shift to a post-Fordist era. "It could be argued," she contended, "that the ALP (and many other social democratic and labour parties) has accepted the inevitability of post-Fordism, with its emphasis on the techno-economic imperative, and the dilution of any sense that there are choices to be derived from a democratic political system."[135] Probert pointed out that political opposition to globalisation and restructuring was increasingly marginalised as both political parties offered variations on a theme.[136]

By the mid 1990s, the concept of globalisation dominated debates about the Australian political economy.[137] Whilst earlier analyses had downplayed the extent to which the

131 Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe,* Ithaca, Cornell University Press, 1985, Castles, *Australian Public Policy and Economic Vulnerability.*

132 Stuart Harris, "The International Economy and Domestic Politics" in Ian Marsh (ed), *Governing in the 1990s: An Agenda for the Decade,* Melbourne, Longman Cheshire, 1993.

133 Stephen Bell and Brian Head (eds), *State, Economy and Public Policy in Australia,* Melbourne, Oxford University Press, 1994.

134 John Ravenhill, "Australia and the Global Economy" in Stephen Bell and Brian Head (eds), *State, Economy and Public Policy in Australia,* Melbourne, Oxford University Press, 1994.

135 Belinda Probert, "Globalisation, Economic Restructuring and the State" in Stephen Bell and Brian Head (eds), *State, Economy and Public Policy in Australia,* Melbourne, Oxford University Press, 1994, p. 112. See also Saskia Sassen, *The Global City: New York, London, Tokyo,* Princeton, Princeton University Press, 1991; Manuel Castells, *The Informational City: Information Technology, Economic Restructuring and the Urban-Regional Process,* Oxford, Basil Blackwell, 1991.

136 Probert, "Globalisation, Economic Restructuring and the State," p. 98.

137 See for example EPAC, *Globalisation: Issues for Australia,* (Papers and Proceedings from an EPAC seminar held on September 15, 1994) Canberra, AGPS, March 1995; Bob Catley, *Globalising Australian Capitalism,* Melbourne, Cambridge University Press, 1996; John Wiseman, *Global Nation: Australia and the Politics of Globalisation,* Melbourne, Cambridge University Press, 1998; Dick Bryan and Michael Rafferty, *The Global Economy in Australia: Global Integration and National Economic Policy,* Sydney, Allen & Unwin, 1999. Globalisation has also been prevalent in media commentary. See for example Ross Gittins, "The Globalisation Ball is on a Roll," *Age,* 15 September, 1993; Philip Scanlan, "Globalisation Push Could Bring New Wealth to Australia," *Australian Financial Review,* 29 March, 1995; Gary Sturgess, "Who Rules a World Without

international context shaped the policy process, by the mid-1990s, many treated globalisation as a clear imperative forcing economic liberal policy change. The continuing importance of domestic political developments and struggles were increasingly understated at the expense of a more balanced analysis of the interaction between domestic and international developments.[138] Whilst the global-determinist view was widespread in academic and journalistic analyses, perhaps the biggest proponents of the argument were, as the next chapter reveals, the policy-makers themselves.

Undoubtedly, international factors - particularly in the context of Australia's structural economic problems - were fundamental to the economic liberal policy shift in Australia. But it is clear from the above review that a whole range of factors played important roles. Although policy changes were not made simply because economists and bureaucrats changed their minds, economic ideas did provide a framework both to *guide* policy and to *frame* the problems that Australia faced. As Painter points out:

> Particular features of market liberalism turned it into a powerful rhetoric of institutional change in the specific circumstances of Australia in the 1980s. It pinpointed a process of institutional decay - including the doctrinal bankruptcy of the old order - as part of the problem of overall decline and hence as one of the reasons for the need for structural adjustment. . . . [M]arket liberalism became increasingly disassociated from partisan or sectional positions and came to form the basis for a new set of collective problem-solving arrangements. . . . That its spread and success confounded and contradicted traditional ideological cleavages is thus not surprising. It grew out of the state's technical and administrative entanglement with the economy rather than out of any social group's or party's aspirations for political or social progress.[139]

The diagnosis was that Australia's problems were primarily economic and that these economic problems resulted from a lack of (world) market discipline. Australia was in a dire economic situation in the early 1980s - a structural crisis that extended beyond a cyclical downturn - and part of the appeal of economic liberalism was the idea that the economy would operate more efficiently and grow at a faster rate if the state got out of the way and simply did less. Pivotal to the applicability and acceptance of 'new' ideas was the perceived failure of the old ones. In Australia in the early 1980s, continued economic malaise provided an opening for ideas diametrically opposed to protectionist ones.[140] Although in earlier times, the world economy and conceptions of economic vulnerability were seen to provide the rationale for polices of external protection and comprehensive domestic regulation, by the 1980s the position had reversed: protection

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Boundaries," *Australian*, 3 October, 1996, p. 13; Nina Field, "Business Urged to Embrace Globalisation," *Australian Financial Review*, 10 July, 1997. p. 8.

138 For an important exception, see Stephen Bell, *Ungoverning the Economy: The Political Economy of Australian Economic Policy*, Melbourne, Oxford University Press, 1997.

139 Martin Painter, "Economic Policy, Market Liberalism and the 'End of Australian Politics'," *Australian Journal of Political Science*, 31(3), 1996, p. 293.

140 Compare Hall, "Policy Paradigms, Social Learning, and the State."

and restrictive regulations were seen as enhancing Australia's vulnerability to the world political economy. By shutting out global pressures, important sectors of the economy had become inefficient and unable to adapt to technological changes and competitive pressures. Protection was increasingly associated with weakness, failure and the so-called cultural cringe.

The alternative idea that the state should be more 'strategically' interventionist in response to Australia's structural woes, came up against the association of active industry policy with protectionism. Industry policy was effectively attacked by critics as the major reason why Australia was in such a dire economic situation. Economic liberals were able to make a simple but potent assertion that if Australia had failed economically because of protectionism then the solution must lie with the market. In Australia, then, there was a double-edged argument for eschewing an interventionist role for the state: on one hand, its association with the protectionist policy structure and, on the other, the argument that globalisation made such a role either unviable or unaffordable. The only real question for many policy-makers and commentators was not whether Australia should embrace economic liberalism, but how fast.

Beyond economic concerns, the economic liberal policy structure was also able to satisfy important political criteria. The state would still have a significant role, but less responsibility for economic outcomes. Whilst transition costs would be high and hence would have to be explained, justified and at least partially compensated for, unleashing market forces, it was argued, would eventually overcome these political problems through improved economic performance. Acting within the protectionist policy structure, policy-makers continued to be pressured to make what were increasingly seen as ineffective interventions and continued to be constrained by societal expectations that the state would intervene to protect citizens and economic actors from the vagaries of the outside world. In a period of increasing international constraints, therefore, the shift to economic liberalism had important political advantages over either a strengthening (or adaptation) of the protectionist policy structure or a renewed 'strategic' interventionism which would have meant that the state would continue to be held *directly* responsible for economic outcomes.

Conclusion

Although policy-makers, especially along the political/bureaucratic divide, may have differed in their emphases about the appropriate direction of policy, by the mid-to-late 1980s, most of them had concluded that Australia needed to progressively embrace an economic liberal policy strategy. The ensuing shift to economic liberalism in Australia

outlined above can be explained through a number of frameworks, all of which partially capture the pressures and opportunities facing policy-makers. Economic policy choices resulted from a multiplicity of cross-cutting pressures and interpretations: political calculations about how best to manage economies to produce growth whilst maintaining electoral support; the residual strength of, or reactions to, policy legacies; the experience of other countries; dominant economic ideas; societal changes; perceptions of the power of major political and economic actors and the constraining nature of the world political economy. Economic liberalism appealed to policy-makers, both political and bureaucratic, because as a set of ideas and a programme of governance, it provided a coherent strategy that repudiated the failures of the past, appealed to important (globalising) economic interests and, perhaps most importantly, enabled the state to strike a path through the pressures emergent from both the international and domestic domains.

The next chapter expands on these themes by providing a detailed analysis of the adoption of economic liberalism - the domestic politics of globalisation - in the policy domains of finance, macroeconomic policy, industry, trade and industrial relations.

Chapter Six

The Domestic Politics of Globalisation

Introduction

To understand the effects of economic globalisation on Australia during the 1980s and 1990s it is essential to analyse the economic policy process. Whilst Australia is a small country that has a minimal effect on the structure of the world political economy, how the Australian political economy is regulated continues to matter - to Australians, at least. Australia may have little choice but to adjust to international political economic developments, but the form of adjustment remains within the scope of domestic political choice. The domestic policy process is both shaped by and shapes the impact of globalisation.

The 'domestic politics of globalisation' in Australia involved efforts by policy-makers to comprehensively shift away from protectionism and develop a new economic liberal policy structure that would open Australia to world political economic pressures and force domestic economic *and* political adjustment. This chapter analyses the early adoption of financial liberalisation, the economic crisis of 1986 and the continuing current account problem, the progressive dismantling of industry protection, the turn to free trade and the liberalisation of the industrial relations system.

Financial Discipline

> We have floated the Australian dollar, allowing its price to be set in the international marketplace. This is the Hawke Government's greatest single reform; the single act which has pushed Australia into the world and made it face its problems.[1]
>
> The medium- and longer-term consequences of the float have affected every area of economic policy. It put a discipline economically on the Government which could also be turned into a political discipline. The fact that the local and international markets delivered their view on economic policy meant that the Government was forced to be responsible. To be otherwise would invite damaging consequences. This argument could be used to some effect against ministers wanting to spend, and with backbenchers who were exerting pressure for this or that policy.[2]

1 Paul J. Keating, "Speech to Life Insurance Federation," (28 May 1987) *Commonwealth Record*, 25-31 May, 1987, p. 830.

2 Michelle Grattan, "The Float: An Economic and Political Discipline," *Economic Papers*, 13(1), March, 1994, pp. 42-43.

In 1981, in response to the recommendations of the Campbell Committee that the financial sector should be comprehensively liberalised,[3] the then Labor shadow Treasurer, Ralph Willis, had asserted that financial deregulation:

> means higher interest rates for home buyers, higher interest rates for small business, higher interest rates for farmers, higher interest rates for government, increased government taxes and charges to cope with increased borrowing costs, less finance for housing, a more volatile exchange rate with decontrol of our foreign exchange and less control by government over the form of development of the Australian economy. That is what deregulation means.[4]

Willis's eventual replacement, Paul Keating, also argued in 1981 that there should be controls on short-term and speculative capital inflows: "This sort of investment does nothing to increase Australia's productive capacity but merely increases the profit flow overseas and decreases the level of Australian ownership of industry."[5] Keating, at this time, was also against allowing foreign banks into Australia.[6]

Once in Government, however, Keating was particularly receptive to financial liberalisation, as was Hawke. The new Government needed to counteract financial market suspicions of the Accord, with its talk of intervention and planning, and it acted quickly to distance itself from Fraser's claims during the election campaign that a Labor Government was bound to pursue socialist economic strategies.[7] The experience of the Mitterrand Socialist Government's failed attempts to expand the French economy in 1981 and 1982 influenced the Government's perceptions about the effects of financial markets on expansion, redistribution and interventionism.[8]

Hawke and Keating understood the importance of placating financial market concerns about a Labor Government. In June 1983, the *Australian Financial Review* reported that Hawke and Keating "made their first official marketing pitch to the New York financial community last week with one clear intention - to put to rest any fears of the Mitterrand factor."[9] Barry Hughes, one of Keating's early economic advisers, believed that it was fundamental to Labor's strategy to manage both the money and labour

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3 Committee of Inquiry on the Australian Financial System (Campbell Committee), *Final Report*, Canberra, AGPS, 1981.

4 Willis, cited in Martin Byrne, "The Emperor's New Clothes," *Australian Society*, August, 1986, p. 11.

5 John Edwards, *Keating: The Inside Story*, Melbourne, Penguin, 1996, pp. 154-155.

6 Ibid., p. 160.

7 Malcolm Fraser, "Speech to National Press Club," (1 March 1983) *Commonwealth Record*, 25 February - 6 March, 1983, p. 297.

8 See Eric Helleiner, "From Bretton Woods to Global Finance: A World Turned Upside Down" in Richard Stubbs and Geoffrey Underhill (eds), *Political Economy and the Changing Global Order*, London, Macmillan, p. 167.

9 Cited in Andrew Glyn, "International Financial Markets and Economic Expansion - Australia 1983-87," *Economics Programme Working Papers*, Murdoch University, April 1988, p. 24.

markets. Writing in 1984, Hughes' argument provides an insight into the early 'pragmatism' of the Labor leadership and is worth quoting at length:

> while fiscal expansionism . . . provides the strength to support recovery, the policy's major weakness is the risk-laden view that money market difficulties can be overcome simply by direct control. It is not necessary to postulate a conspiracy of financiers against Left-of-centre governments in order to view with some trepidation the money market consequences of forced growth. The conspiracy, if such it be, is that of a theoretical idea, of anticipations based on so-called rational expectations. Again it is beside the point whether these rational expectations theories adequately depict the course of events over the medium- to long-term. As long as market moods are strongly influenced by them, the immediate short-run money market consequences, both on the internal and external markets, may be sufficient to abort the whole programme. The long-run programme is never put to the test. The fate of Mitterrand mark 1 is a pointed reminder of the risks run when a complacent attitude is taken towards these reactions.[10]

Two days before officially taking office, the Government had depreciated the Australian dollar by ten percent in response to capital outflows caused by expectations of a devaluation of the Australian dollar.[11] Capital inflows returned after the devaluation and once it became clear to financial markets that the Government was not about to embark on a comprehensive interventionist and redistributive programme. Speculators then began to gamble that under the 'fixed' exchange rate system, financial authorities would be forced to revalue the Australian dollar, giving them a substantial profit.[12] The initial negative reactions of financial markets provided an indication of their potential to create difficulties for policy, even within the regulated system. Moves to tighten the regulation of financial transactions, a more expansionary macroeconomic policy stance, or a shift towards comprehensive economic planning, would have undoubtedly frightened investors and exacerbated capital outflow.

The experiences, firstly with capital flight and then inflow, reinforced the monetary policy difficulties associated with the existing financial regulations and convinced many policy-makers that regulatory changes were necessary.[13] Recounting the situation in the days leading up to the float, John Phillips, the then Manager of Financial Markets at the Reserve Bank, points out that:

> The Reserve Bank found itself buying almost $1.5 billion of foreign exchange in just a few days . . . The bank and the government had to face up to how long they would let that continue given the damage it was doing to monetary management.[14]

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10 Barry Hughes, "Social Democratic Economics Once Again" in Don Rawson (ed), *Blast, Budge or Bypass: Towards a Social Democratic Australia*, Academy of the Social Sciences in Australia and Department of Political Science, Research School of Social Sciences, Australian National University, 1986, p. 86.

11 Reserve Bank of Australia, *Bulletin*, April 1983.

12 Tim Blue and Mark Westfield, "Dollars & Sense: A Decade of Floating Currency," *Australian*, 9 December, 1993, p. 27.

13 See Edwards, *Keating*, ch. 7.

14 Blue and Westfield, "Dollars & Sense," p. 27.

Keating, influenced by Treasury officers (although not Secretary, John Stone) and the Reserve Bank, increasingly saw the managed exchange rate as responsible for high levels of speculation against the dollar.[15] Policy-makers could not stop destabilising speculative episodes with the existing set of regulations, and proponents of the float expressed optimism that it would increase currency and financial market stability. By floating the dollar, speculators would be gambling against each other rather than against the Reserve Bank.[16] Stone, however, remained unconvinced and in October 1983, he minuted Keating about the dangers: "A complete and wholesale leap to a full market system overnight would be an act of faith to which the government has no need to commit itself at this time and the consequences of which cannot clearly be foreseen."[17] Stone's opposition to the most important economic 'rationalist' decision of the 1980s appeared ironic given his portrayal by the Left as the arch-economic rationalist. But it was indicative of the continuing protectionist mind-set among important sections of the bureaucracy that Australia's status as a small country required protection from the vagaries of the international financial system.[18] In December 1983, without Stone's approval, the Government floated the dollar and removed exchange controls. The decision was widely acclaimed by market players and economic commentators.

Before the float, in May 1983, Keating had announced that he was setting up a committee to review the recommendations of the Campbell Report on the financial system. The committee was headed by a former banker, Vic Martin, and was commissioned without cabinet approval.[19] The review was a blatant attempt to justify the ensuing liberalisation process and change Party attitudes. As Hawke explains: "If we were to educate the party about the necessities of financial deregulation we needed to embrace it as our own, but Campbell had first to be presented in our own terms of reference."[20] In February 1984, the Martin Review Group reported its findings and, as expected, supported the thrust of the Campbell Report. The support for liberalisation, Hawke argues, was unavoidable:

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15 Glyn, "International Financial Markets and Economic Expansion," p. 26. There is much contention between Hawke and Keating about who was the driving force behind the float. See Edwards, *Keating*; Paul Kelly, *The End of Certainty: Power, Politics and Business in Australia*, 2nd Edition, Sydney, Allen & Unwin, 1994; Bob Hawke, *The Hawke Memoirs*, Melbourne, William Heinemann, 1994.

16 Blue and Westfield, "Dollars & Sense," p. 27. This advice came, according to Blue and Westfield, from Ted Evans who was later to become Treasury Secretary. Indeed, in announcing the float Keating argued: "The decision to float means that the speculators will be speculating against themselves, rather than against the Australian Government, via the Reserve Bank." ABC Television, *Labor in Power*, 1993.

17 Edwards, *Keating*, p. 222.

18 Hawke, *The Hawke Memoirs*, pp. 245-246. Hawke recalls that he commented to Stone at the time: "You know I have a great affection for the Left of my party. But it's only a few weeks to Christmas and I can't in good conscience take their favourite ogre away by telling them what you've been saying here today." Ibid., p. 247.

19 Edwards, *Keating*, p. 208.

20 Hawke, *The Hawke Memoirs*, p. 235.

> to expect otherwise would have been to turn one's back on market realities - that is, on the globalisation of the world economy, with rapid-fire electronic transfers of hundreds of billions of dollars occurring daily across foreign exchange markets.[21]

After floating the dollar, the Government wanted to abandon the long-standing restrictions on foreign banks. Whilst the earlier decisions could be enacted without consultation, the issue of foreign bank entry was more difficult for the Government because it required changes to the Party's Platform. Facing vocal opposition from the Left of the Party, Keating hectored the delegates of the 1984 ALP National Conference stressing that the abandonment of foreign investment restrictions was a strike against the existing banking oligopoly in Australia:

> It really surprises me that some people in this Party think that we owe Westpac something, or the ANZ Bank, or the National. That really surprises me . . . . So if you want to start talking about equity and fairness you better start with unemployment. But you can't do it with a sick economy. Banking is the artery of the economy and we've had hardening of the arteries for too long in this country.[22]

Keating suggested that only a few foreign banks would be allowed entry and Left moves to block the changes were comprehensively defeated. In February 1985, the Government announced that there were to be sixteen new banking licenses issued to foreign banks, overturning a policy of foreign restriction that had been in existence since 1945.[23] The number of new licences surprised many, as it had been expected that the Government would allow less than the ten foreign bank licences that former Liberal Treasurer John Howard had announced in the dying days of the Fraser Government. At the press conference to announce the decision, Keating quipped: "And they said it couldn't be done."[24]

Financial liberalisation in Australia in the early years of the Labor Government was extensive. In April 1984, stock exchange regulations were liberalised; in June, the Government issued forty new licenses for foreign exchange dealing; in July, the ALP Federal Conference approved limited foreign bank entry; in August, restrictions on the paying of interest on deposits of less than 14 days and on cheque accounts were lifted; in September, the 30/20 rule which had given tax concessions to life offices and pension funds that held at least 30 per cent of their assets in commonwealth government securities was abolished; in December, the number of bond dealing licences was increased; in January 1985, some restrictions were lifted on foreign investment in

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21 Ibid., p. 236. See also R. J. L. Hawke, "Speech to Finance Conference," (25 July 1984) *Commonwealth Record*, 23-29 July, 1984, pp. 1372-1375.

22 ABC Television, *Labor in Power*, 1993. See also Ian Reinecke, "Bankers," *Australian Society*, September, 1988, p. 24.

23 Alan Gunther, "An Outline of Australian Government Policy Towards Foreign Investment from 1976 to the Present," The University of Melbourne Department of Economics, *Research Paper*, 493, November 1995, p. 16.

24 Edwards, *Keating*, p. 263.

Australian securities; in February, sixteen licences were announced for new foreign banks; in April, remaining ceilings on interest rates were removed except for home loans of less than $100 000; in May, the liquid assets and government securities convention was replaced by the prime assets ratio; in April 1986, interest rate ceilings for new home loans were abolished with existing loans subject to the prevailing 13.5 per cent ceiling; in August, restrictions on money-market dealers were eased and statutory reserve deposits were to be phased out.[25]

Foreign bank entry aside, the liberalisation of the Australian financial system and exchange controls did not require the effort that would later be needed to sell tariff liberalisation.[26] The Government was able to make many of the decisions in this area without extensive consultation beyond Treasury and the Reserve Bank. And the arcane nature of financial issues meant that the possible negative effects of liberalisation attracted less public attention. Also important was the fact that there was considerable support for liberalisation within the financial sector.[27] In response to the Martin Report, for example, Westpac chief executive Bob White claimed: "I couldn't have written it better myself."[28]

The aim of financial liberalisation, the Government argued, was to abandon outdated regulatory structures and increasingly open the Australian economy to international financial pressures. Keating constantly hammered the economic liberal theme that the changes would help ensure a more efficient allocation of capital and stimulate economic growth:

> The Government's moves in the financial area stem from the basic proposition that, if the economy is to prosper, it must have an efficient and competitive financial system. . . Outdated and inappropriate controls on participants in the financial system can curtail their ability to meet the ever changing demands of a growing economy and constrain the economy from achieving its full potential. In a nutshell, financial deregulation will contribute to increased economic growth in Australia, and as a result, more jobs and a higher standard of living for our people.[29]

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25 Edna Carew, *Fast Money 3*, Sydney, Allen & Unwin, 1991, pp. 16-30.

26 Randal Stewart and Christine Jennett, "Introduction" in Randal Stewart and Christine Jennett (eds), *Hawke and Public Policy in Australia*, Melbourne, Macmillan, 1990.

27 Industries Assistance Commission, *Annual Report 1986-87*, Canberra, AGPS, 1987, p. 20.

28 Tim Anderson, "Financial Deregulation: Why Did Competitive Markets Fail?," *Journal of Australian Political Economy*, 31, 1993, p. 62. See also Paul J. Keating, "Speech at Martin Report Seminar," (14 March 1984) *Commonwealth Record*, 12-18 March, 1984, pp. 410-412. The banks *were* concerned, however, about the competitive threat of foreign banks, a concern that led to the restructuring of the banking industry. After a series of mergers, Australia was left with three major private banks with the publicly-owned Commonwealth Bank as the fourth major bank. Reinecke, "Bankers."

29 Paul J. Keating, "Speech to Investment Forum," (11 February 1985) *Commonwealth Record*, 11-17 February, 1985, p. 137. See also Paul J. Keating, "Speech to Euromoney Conference," (3 December 1985) *Commonwealth Record*, 2-8 December, 1985, p. 2241.

The decisions that liberalised the Australian financial sector in the 1980s, then, were fundamental to the Government's economic liberalism programme. In 1986 Keating argued that:

> The growing integration of Australian and international capital markets had also highlighted the fact that Australia could no longer expect to have its domestic financial markets and economy isolated from overseas developments. . . . The old system gave a false sense of comfort. It encouraged governments to try to avoid necessary adjustment with adverse effects for the economy.[30]

According to Grenville, two factors worked in favour of financial liberalisation: the increasing policy difficulties faced by monetary authorities and an "intellectual climate focusing on a market solution."[31] The single-minded belief in liberalisation meant that many possible problems were downplayed. Reflecting on the changes, Tony Cole, Keating's private secretary at the time of the float and later to be Treasury Secretary, admitted that: "It's true that financial deregulation was oversold at the time. But that's inevitable when you're trying to convince people about the need for change. The benefits were exaggerated and the negatives were underestimated."[32] Bob Johnson, the Reserve Bank Governor at the time, argued subsequently that: "It's just as well they [the Government] did not foresee all the consequences otherwise we might not have got the change."[33] For these policy-makers, despite the possibility of adverse consequences, the benefits of financial liberalisation wholly outweighed any possible, or even actual, negative effects: financial liberalisation was seen to be worth the risk.

In the later 1980s and early 1990s, there was much debate about whether a more gradual or less extensive liberalisation process would have avoided some of the considerable financial problems of the later 1980s.[34] What is clear is that what was originally sold as beneficial for the economy because it would lead to a more efficient allocation of resources, gave way to arguments about inevitability and irreversibility when problems occurred.[35] The need to persuade by putting a positive spin on the benefits of liberalisation was overtaken by the increased coercive power of financial

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30 Paul J. Keating, "Speech to Banking Summer School," (12 February 1986) *Commonwealth Record*, 10-16 February, 1986, p. 173.

31 Stephen Grenville, "The Evolution of Financial Deregulation" in Ian McFarlane (ed), *The Deregulation of Financial Intermediaries*, Sydney, Reserve Bank of Australia, 1991, p. 31.

32 Cole, cited in Kelly, *The End of Certainty*, p. 89.

33 Ibid., p. 77.

34 See for example Hugh Stretton, *Political Essays*, Melbourne, Georgian House, 1987. Ken Davidson, "The Failures of Financial Deregulation in Australia" in Stephen Bell and John Wanna (eds), *Business-Government Relations in Australia*, Sydney, Horace Brace Jovanovich, 1992; John Langmore and John Quiggin, *Work for All: Full Employment in the Nineties*, Melbourne, Melbourne University Press, 1994; Ian McFarlane (ed), *The Deregulation of Financial Intermediaries*, Sydney, Reserve Bank of Australia, 1991; Tom Valentine, "An Appraisal of Financial Deregulation" in Chris James, Chris Jones and Andrew Norton (eds), *A Defence of Economic Rationalism*, Sydney, Allen & Unwin, 1993; Fred Argy, *Financial Deregulation: Past Promise - Future Realities*, CEDA, c1995.

35 See for example Argy, *Financial Deregulation.*

market actors unleashed by liberalisation. Financial liberalisation increased the influence of the financial sector on the rest of the economy and on all areas of policy. The persuasive substance of financial market discipline is well illustrated by Kelly's description of the Government's reaction to the 1986 currency crisis:

> The currency crisis hit Australia on Monday 28 July when the ERC ministers were finalising the budget. Keating had his little Reuters screen on the cabinet table and kept pointing to the falling $A rate. . . . The cabinet was infiltrated by a distinct mood of panic. Keating's banana republic warning had never seemed so real. . . . The response took two forms - immediate and budgetary. . . . [I]t was decided that Keating would announce his more liberal foreign investment policy, ease the withholding tax provision, and that the Reserve would throw a lot of money to hold the dollar rate. It was Keating who synthesised these responses. The upshot was a stabilisation of the currency and a gradual rise. . . . At the same time the crisis led Hawke and Keating to reopen the budget deliberations to tighten fiscal policy even further.[36]

During a financial crisis the short-term is pivotal: financial markets reward images of policies, making policies that can change the 'mood of the market' attractive. Although the Government was less restricted in its policy options once the crisis was over, the events of 1986 meant that the continuing possibility of negative financial reactions was bound to loom large in Government assessments of policy options and in its attempt to persuade the Party and the unions about the need for restraint and further economic liberal change.

In the 1980s, Keating eulogised the disciplinary effects of financial liberalisation on economic policy and the wider political process. The float, he argued, had "provided a stiff and obvious discipline on the government."[37] In response to calls from Malcolm Fraser to re-regulate the Australian dollar, Keating argued: "Would there be the appropriate discipline on public borrowings without a floating exchange rate? A fixed exchange rate and the exchange controls that go with it are the refuge of governments that seek to insulate themselves from economic reality."[38]

This positive view of financial discipline was widely held by policy-makers and economic commentators. The then Deputy Governor of the Reserve Bank of Australia, Ian Mcfarlane, outlined the benefits of financial discipline, arguing that financial markets acted as a "counterweight" to the demands of industry groupings, trade unions and social welfare groups.[39] Even during periods of market instability and seeming disconnection from economic fundamentals, financial discipline was seen as a good thing by some economic commentators:

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36 Kelly, *The End of Certainty*, p. 220. The ERC was the Expenditure Review Committee of Cabinet.
37 Keating, "Speech to Euromoney Conference," p. 2239.
38 Paul J. Keating, "Speech to Australian Bankers' Association" (18 June 1986) *Commonwealth Record*, 16-22 June, 1986, p. 1018.
39 Cited in Roger Hogan, "RBA: Deregulation the Answer to Lobby Bias," *Australian Financial Review*, 28 April, 1995, p. 12.

> the government's best response to the pressure from the market is to push harder on fiscal and microeconomic reform. True that may be pandering to the market's less rational side, but the government should be tightening fiscal policy and lifting the pace of economic reform anyway.[40]

The disciplinary effects of financial liberalisation, however, have been complex and uneven. In Australia and many other countries in the late 1980s, financial liberalisation led to undisciplined lending and an abundance of unsustainable debt. The fears of domestic banks about losing market share to foreign banks and capital markets meant that lending standards were lowered with many loans dependent on unrealistic rates of return and continuing asset price inflation. After the collapse of the boom, discipline on borrowers did of course again prevail. In other words, discipline occurred only after a long period of indiscipline. There was a massive increase in credit in Australia between 1983 and 1989: bank capital grew almost 100 per cent in 1985 and 1986 and almost 80 per cent in the following two years.[41] The boom was eventually stopped by very high interest rates and the subsequent recession.

Instead of providing investment for the restructuring of the Australian economy, the providers of capital increasingly lent for speculative and often low margin ventures. This issue - whether speculative investment was a substitute for productive investment - has attracted considerable debate.[42] Less contentious is the fact that, despite the investment boom of the late 1980s, Australian industry did not sufficiently restructure towards exports and import-competing industry to avoid continuing current account problems. The huge increase in debt and the failure to significantly increase Australian exports exacerbated the current account deficit problem as income payable overseas increased enormously. By far the most significant consequence of the speculative boom, however, was the restrictive monetary policy response. High interest rates restricted investment in new export capacity and led to a catastrophic recession by the early 1990s. In the aftermath, the consolidation of bad debt made the banks extremely cautious in their lending to business in the early 1990s.

Keating attempted to shift the blame by referring to the "poor lending" of the banks to speculators - loans that were reliant on "a continuation of the asset price appreciation that was occurring."[43] But, together with his exuberant policy advisers, Keating must

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40 Editorial, *Australian Financial Review*, 29 April, 1994, p. 20.
41 Max Suich, "Bank Ruptured," *Independent Monthly*, May, 1991, p. 15.
42 See for example Edwards, *Keating*, pp. 345-346 & 560; Tony Makin, "Were the Eighties that Excessive?," *Economic Papers*, 13(4), December, 1994; P. V. George, "Asset Price Inflation and Monetary Policy," *Economic Papers*, 13(4), December, 1994; Frank Stilwell, "Speculation Versus Productive Investment," *Journal of Australian Political Economy*, 23, August, 1988; Davidson, "The Failures of Financial Deregulation."
43 Paul J. Keating, "Address by the Treasurer to the Committee for the Economic Development of Australia," Sydney, 4 October, 1990, pp. 5-10.

accept the blame for creating a regulatory structure that allowed such excesses to occur. The rapid pace of financial change substantially altered the context within which economic policy decisions were taken during the 1980s, with policy-makers unsure about how to interpret market signals and developments. As Schinasi points out:

> the prevailing monetary policy framework in combination with dramatic changes in financial structures, monetary transmission mechanisms, and other important structural changes made it difficult for monetary authorities in many countries to distinguish sustainable relative asset price adjustments from unsustainable price increases.[44]

Argy puts it more simply: "There is no doubt that financial deregulation facilitated the debt explosion of the 1980s."[45] The results of financial liberalisation were much more equivocal than many of its proponents argued would be the case. These problems, however, were seen by many to be outweighed by longer-term increases in the efficiency of the financial sector and in the effect of increasing financial discipline.[46]

Not everyone in the Government believed that the financial sector and liberalisation were beneficial for growth and economy-wide restructuring. In 1990, John Button argued that the financial markets had misallocated resources on a massive scale and that the damage to the economy from this was every bit as serious as that caused by the inefficiencies on the waterfront and in the public sector which had received so much attention from economists. Button was keen to point out that the supply of development or venture capital had been poor since financial liberalisation had taken place. He maintained that:

> In the 1980s, many of those who decided where our scarce capital was invested were dazzled by entrepreneurs who preferred debt-driven corporate strategies to equity in real activity. In effect the capital markets became accessories to a form of economic vandalism.[47]

In the mid-1990s, Keating, hitherto considered to be the great 'massager' of market sentiment through his ability to produce a budget 'surprise' to please the markets, became increasingly frustrated with the financial market discipline he had earlier unequivocally praised. He criticised financial market actors for "not playing the game," for working "against the best interests of the country" and for being "deficit daleks."[48] The spectacle of the Prime Minister berating the bond markets as "crackers" was a

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44 Garry J. Schinasi, "Asset Prices, Monetary Policy and the Business Cycle," *Economic Papers*, 13(4), December, 1994, p. 108.

45 Argy, *Financial Deregulation*, p. 19.

46 See Valentine, "An Appraisal of Financial Deregulation."

47 John Button, "Address by the Minister for Industry Technology and Commerce at the MTIA Business and Commercial Management Group Conference," Canberra, 5 September, 1990, pp. 3-6.

48 See for example Robert Garran, "PM Lashes the Markets as CPI Falls," *Australian*, 28 April, 1994, p. 1; Tom Burton, "Keating Heading for a Fall on Rate Rise," *Australian Financial Review*, 24 June, 1994, p. 29; David Shires and Barrie Dunstan, "Keating Lashes Markets," *Australian Financial Review*, 5 July, 1995, pp. 1 & 4.

marked reversal of his position when Treasurer. When discipline was important for Keating's policy aims as Treasurer, the markets were all-knowing and correct in their assessment, but when they reacted badly to a new Prime Ministerial policy aim, his assessments were not so benign. Despite the stridency of Keating's rhetoric, he and the Government did not question the decisions that had liberalised the financial sector. Financial liberalisation was still seen as overwhelmingly beneficial. In 1995, having finally secured the post that Hayden had taken from him and given to Keating in January 1983, Treasurer Ralph Willis praised the integration of financial markets and rejected the argument that it had gone too far:

> Excessive volatility is damaging but we should not shoot the messenger in preference to paying attention to, and acting on the message - and that message involves the sustainability of economic policies. . . . [T]he best means of dealing with such volatility will always lie in ensuring that domestic policies are conducive to removing excessive imbalances.[49]

Increased financial volatility was not seen to require restrictions on financial flows, rather it was seen to increase the need for faster deficit reduction and faster and more comprehensive microeconomic reform, especially in the labour market.[50] Arguments about the need for international efforts to reduce speculation in financial markets were given little credibility by the Government.[51]

The possibility of appeasing financial interests by liberalising financial regulations was seen as a way for the Government to establish its credentials as a 'responsible' economic manager, willing to embrace finance-friendly policies. Whilst the Government argued that getting the markets onside would help it to achieve its goals, it increasingly seemed that its major goal became getting the markets onside. Financial liberalisation imposed an important discipline on economic policy from very early in Labor's tenure of office, coercing reassessments about the possibilities of politics. The actual and potential coercive power of financial markets was used by policy-makers to argue that an ongoing economic liberal shift was the only viable policy option. This was particularly the case in the crisis of 1986 and the ongoing efforts to deal with the current account deficit.

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49 Helen Trinca, "Willis Praises Integration of Financial Markets," *Australian*, 24 May, 1995, p. 2.

50 See for example the comments of then BCA Executive Director Paul Barrett, in Robert Garran, "Bosses Urge Faster Reform," *Australian*, 25 July, 1994, p. 4.

51 See for example Langmore and Quiggin, *Work for All*, pp. 185-186. See also John Langmore, "Restoring Order Out of Anarchy," *Economic Papers*, 1994.

Making the 'Tough Decisions' (Or, 'Solving' the Current Account Deficit)

> The world does not owe us a living.[52]

> I know that we have had to take hard and unpopular decisions for difficult times. I know - I understand completely - that those decisions have been tough for many decent, hard working Australians. But I also know that I would not be fit to lead our great country if I had chosen the easy, popular way at the cost of the nation's future. And anyone - however glib or smooth - who tells the people of Australia that the future lies at the end of an easy road is not fit to be Prime Minister.[53]

In 1986, the Government faced one of the most important tests of its entire period of office. The deterioration in Australia's terms of trade over 1985 and 1986 and expanding foreign debt led to progressively higher monthly current account deficits and a severe reassessment of the Australian economy by financial markets. The Government responded by stressing that the crisis had been forced on Australia by the world economy, that it meant a forced reduction in Australian living standards and that there was a need for sacrifice and tough decisions. The events of mid-1986 were pivotal in shaping the Government's subsequent policy agenda and the crisis was used to reinforce the Government's economic liberal policy programme. Over the rest of Labor's term of office, a resilient current account deficit provided an important indicator of Australia's structural economic woes. As one economic review of economic policy during the 1980s argued:

> Of all the economic developments in the 1980s, none has caused wider concern than the sharp deterioration in the current-account of the balance of payments. Reducing the current-account imbalance has become the prime objective of economic policy in Australia.[54]

As the current account deficit worsened over 1985, Keating remained adamant that the issue was under control and berated those who were prophesising imminent doom and urging drastic remedial action:

> I do find some of the comment in this area as unnecessarily extreme. . . . At the end of the day, it is the views of the people who actually lend money to Australia that count in this respect. That being so, it is instructive to note that just last week Australia's triple A credit rating was confirmed by the highly respected American assessment agency Moody's.[55]

Most importantly, Keating argued that dealing with the current account deficit and the increased levels of foreign debt did not require putting Australia into recession. "The no growth solution," Keating stressed, was no answer to the current account dilemma

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52 Paul Keating, *Budget Speech 1988-89*, Canberra, AGPS, 1988, p. 2. See also Bob Hawke, Paul Keating and John Button, *Building a Competitive Australia*, Canberra, AGPS, 1991, p. 1.1.
53 R. J. L. Hawke, "Labor Party Policy Launch," Sydney, 8 March, 1990, p. 1.
54 INDECS, *State of Play 5*, Sydney, Allen & Unwin, 1988, pp. 103-104.
55 Paul J. Keating, "Speech to *Financial Review* Seminar," (17 October 1985) *Commonwealth Record*, 14-20 October, 1985, pp. 1836 & 1838.

because "as soon as the economy was allowed to recover the problem bounced up again."[56] Over the following years, the situation and Keating's position were to change drastically: Moody's was to downgrade Australia's credit rating, Australia was to embrace the 'no growth solution' and the current account deficit was to reappear as soon as the economy recovered from recession.

The Government's strategy for dealing with the current account deficit in 1985 was centred around the idea of the J-curve. This theory posited that a currency depreciation, whilst initially leading to a deterioration in the current account deficit as the price of imports rose, would eventually improve it through a positive effect on the trade balance as exports became cheaper for foreign buyers and imports became more expensive for Australians. In other words, it provided a neat justification for the worsening current account position.[57] The moribund nature of much of Australia's manufacturing sector, however, meant that it could not exploit the advantage conferred on it by the lower dollar. Instead, the depreciation of the dollar increased the cost of servicing foreign debt, without helping to improve the trade balance.

On the 14th of May 1986, in reaction to another poor balance of payments outcome, Keating made a statement that was to frame economic policy for the rest of the 1980s and encapsulate the Government's argument about what was at stake if Australia did not adjust to global imperatives. Speaking to radio personality, John Laws, from a wall phone in the kitchen of a function centre, Keating explained that:

> We are importing about $12 billion more than we are exporting on an annual basis. What it means is that we are living beyond our capacity to meet our obligations by $12 billion . . . we must let Australians know truthfully, honestly, earnestly, just what sort of international hole Australia is in. It's the price of our commodities - they are as bad in real terms since the Depression . . . and if we don't make it this time we never will make it. If this government cannot get the adjustment, get manufacturing going again and keep moderate wage outcomes and a sensible economic policy, then Australia is basically done for. We will just end up being a third-rate economy . . . If in the final analysis Australia is so undisciplined, so disinterested in its salvation and its economic well being, that it doesn't deal with these fundamental problems, then the fallback solution is inevitable because you can't fund $12 billion a year in perpetuity every year . . . the only thing to do is to slow the growth down to a canter. Once you slow the growth under 3 per cent, unemployment starts to rise . . . Then you are gone. You are a banana republic.[58]

Although Keating was talking hypothetically, the mere use of the label shocked the financial markets and the Australian population.[59] The Australian dollar immediately

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56 Paul J. Keating, "D. H. Merry Lecture," (21 March 1986) *Commonwealth Record*, 17-23 March, 1986, p. 390.

57 Paul J. Keating, "October Balance of Payments," (12 November 1985) *Commonwealth Record*, 11-17 November, 1985, pp. 2108-2109. Paul J. Keating, "Speech to EPAC," (7 March 1986) *Commonwealth Record*, 3-9 March, 1986, p. 300.

58 Cited in Kelly, *The End of Certainty*, p. 212.

59 Edwards, *Keating*, p. 296; Kelly, *The End of Certainty*, pp. 211-214.

plummeted three US cents and the Government was thrown into crisis. In the following days, with Hawke in Asia, Keating attempted to take control of the Government's agenda. Hawke, pressured by his advisers to put Keating in his place, reasserted his authority by putting deputy Prime Minister, Lionel Bowen, in charge.

A couple of weeks later, Hawke made a televised address to the nation in an attempt to bring the situation under control and to begin the process of educating Australians about the need for policy change.[60] Hawke stressed that the fundamental cause of the crisis was the severe decline in Australia's terms of trade - a development imposed on Australia and hence beyond the Government's control:

> There are no easy choices in this area. Either we take the hard decisions required - in which case we exercise some control over the kind of future which we have for ourselves and our children - or we just passively accept those adjustments forced on us by external conditions no matter what their consequences.[61]

The Opposition attempted to take advantage of the situation, with Liberal leader, John Howard, arguing that more drastic action needed to be taken:

> The economic difficulties facing Australia today are more serious than at any time since the Great Depression. And yet, until last month Mr Hawke and Mr Keating continually told us that all was well and that our economy was robust and healthy. Now all of a sudden we're being told there's a crisis - but somehow the rest of the world is entirely to blame. Not only is this a cop-out, but we've been given no explanation as to why we were misled for so long. Australia has reached a stage where a basic change of attitude and direction is needed. And it's needed right now. Tinkering at the edges, hoping that something will turn up is just not good enough. The longer hard decisions are put off the greater will be the fall in our living standards.[62]

The Business Council of Australia (BCA) argued that the crisis called for a fundamental rethink of Australian attitudes:

> [P]resent economic problems have been building for a long time. They stem from a variety of causes, including our attitude to work and our overdeveloped sense of entitlement, which have led the rest of the world to view us now as an unreliable trading partner, lacking endeavour and paying ourselves too much. The sheltering of many of our businesses behind regulatory and protective barriers for much of the post-war period has stifled innovation and entrepreneurship.[63]

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60 R. J. L. Hawke, "Address to the Nation on Economic Situation," (11 June 1986) *Commonwealth Record*, 9-15 June, 1986.

61 Ibid. In his memoirs, Hawke argued: "The speech was designed to take the Australian public into our confidence and to educate the nation about the essential realities confronting it. Paul's remarks had traumatised both the public and the markets - a form of shock treatment gone wrong. I wanted the speech to be an intimate exercise aimed at producing comprehension rather than inducing panic." Hawke, *The Hawke Memoirs*, p. 375.

62 John Howard, "Address to the Nation," (18 June 1986) *Commonwealth Record*, 16-22 June, 1986, p. 1020.

63 Business Council of Australia, "Business Council Action Plan for Economic Recovery," *Business Council Bulletin*, 25, 1986, p. 9.

The Government's immediate response was to signal to financial market actors that the Government was serious about its shift to economic liberalism and that it would lower the level of demand in the economy by reducing public spending, re-negotiating wages and increasing interest rates. Such policies would assist the fight against inflation which had been exacerbated by the currency depreciation. Hawke and Keating argued that the Government had three choices: it could do nothing, cause a recession, or create the environment for the maintenance of (slower) growth which entailed sacrifices across the Australian community.[64] The most appropriate strategy, Hawke argued, was "restraint with equity": fiscal contraction, involving cuts to the public sector; wage restraint, involving a reduction in disposable income; and measures to liberalise foreign investment to ensure the maintenance of capital inflows.[65]

Keating continued to stress that the crisis required a fundamental reassessment of economic policy and public expectations. In his 1986 Budget Speech, he argued:

> With the world having slashed our income by over $6 billion, we could not continue on as though nothing had happened. To try this would see the world force destructive adjustment on Australia making it hostage to the international financial community. And that is not a position acceptable to this government. We believe that Australia must retain control over its own destiny and this can only be done by facing the problem squarely and making the remedial changes quickly and decisively . . . It is imperative that our domestic economy and our standard of living adjust to our changed trading circumstances so that we can make an early return to higher growth and stronger employment.[66]

Accordingly, budgetary strategy had to shift away from recovery and expansion to a focus on the current account deficit. Adjustments to external constraints would involve "a temporary reduction in public and private consumption and therefore a spreading of the reduction in living standards."[67] The public sector had to borrow less to improve the climate for lower interest rates and for private sector investment.[68] To achieve this aim, substantial cutbacks were made "with major reductions falling on social security, health, education, defence and overseas aid."[69]

The Government refused to respond to the crisis by reinvigorating the protectionist policy structure. Instead, the crisis enabled the Government to argue that the world economy was forcing an economic liberal policy shift. Keating maintained that the crisis did not justify a shift to a more export-focused industry policy because

64 Hawke, "Address to the Nation on Economic Situation"; Paul J. Keating, "Economic Context of Premiers Conference," (13 June 1986) *Commonwealth Record*, 9-15 June, 1986.
65 R. J. L. Hawke, "Speech to ALP National Conference," (9 July 1986) *Commonwealth Record*, 14-20 July, 1986, p. 1155.
66 Paul J. Keating, *Budget Speech 1986-87 and Statements 1 & 2 of Budget Paper No. 1*, Canberra, AGPS, 1986, pp. 1-2.
67 Ibid., p. 36.
68 Ibid., p. 2.
69 Ibid., p. 26.

"efficiency criteria" continued to be most important: "assistance to selected industries, in whatever form, is ultimately a burden to other industries." Such conclusions, Keating emphasised, were "not diminished by the action of other countries in protecting and subsidising their industries." In other words, Australia had "to adjust to the world as it is."[70] The inability of Australian industry to adjust, Keating argued, had been encouraged by the willingness of past governments to provide protection whenever the going got tough.

After 1986, the current account deficit became the major focus of economic policy. The May Economic Statement of 1987 aimed to reassure financial markets that the Government was continuing its programme of fiscal restraint and liberalisation. Mindful of the previous year's events, the Government feared a financial crisis in the lead up to the 1987 election. Kelly argues that the Statement was accorded the best reception of any economic document in the 1980s, helping to establish Labor's credentials as 'sound' economic managers.[71] The Statement also confirmed the Government's faith in another theoretical proposition - in this case, the 'twin deficits' theory. Put simply, the theory held that a lower budget deficit would deliver a lower current account deficit. The current account deficit is equal to the gap between domestic savings and investment and because a lower budget deficit (or a surplus) increases public saving, theoretically this should reduce the size of the gap and, as a corollary, the current account deficit. Reducing the public sector's call on saving, it was argued, would increase the funds available to the private sector for investment at lower rates of interest and decrease the need for foreign funds. Keating was a willing convert. "The public sector," he insisted, "must give way to the externally traded goods sector in order that we overcome our trade problem."[72]

In the May Economic Statement of 1988, Keating signalled the Government's intention to bring the budget into surplus the following financial year. The surplus was deemed necessary to repay public debt which, Keating warned, if allowed to get out of hand, "could cripple our economy" in the event of another collapse in the terms of trade.[73] The surplus would also allow more funds for "investment in export and import competing industries without borrowing from abroad" and would "hold down domestic demand and import growth while the new industrial capacity is given time to improve

70 Ibid., p. 37. This argument echoed the line of the Industries Assistance Commission, which had continually warned of the dangers of industry policy or "policies of preferment." Industries Assistance Commission, *Annual Report 1984-85*, Canberra, AGPS, 1985.
71 Kelly, *The End of Certainty*, pp. 329-333.
72 Paul J. Keating, "Speech to National Press Club," (14 May 1987) *Commonwealth Record*, 11-17 May, 1987.
73 Paul J. Keating, *Economic Statement: May 1988*, Canberra, AGPS, 1988, p. 4.

our trade balance."[74] The following Budget delivered the surplus and Keating was ebullient: "This is the one that brings home the bacon. This is the budget that pulls the whole game together from 1983 onwards."[75]

Fiscal policy continued to be tightened in deference to the 'twin deficits' theory. In 1989, Keating argued that the aim of fiscal policy had been "to reduce public sector outlays and borrowings in order to moderate aggregate demand and the public call on Australian savings, thereby contributing to a better structured and stronger economy."[76] The simplicity of the 'twin deficits' theory and its compatibility with the general aim of the Government to decrease the level of public spending made it extremely attractive to the Labor leadership and their bureaucratic advisers. Restrictions on spending allowed the Government to decrease taxes and appease financial market concerns about increases in public debt. But in terms of its stated aim - the reduction of the current account deficit - its failure was spectacular. As Keating eventually conceded:

> Never before in the history of the Commonwealth have the Treasury and the Reserve Bank - the economic advisers - put to government a remedial policy which a government adopted in its entirety and then it didn't work. That's what basically happened with the current account deficit. We accepted the view that if we produced a structural budget surplus - cut the public sector by seven percent of GDP - we would wipe out the current account deficit. We did and it didn't happen.[77]

Despite his growing belief that the 'twin deficits' theory looked "like bullshit," Keating maintained that reducing the public sector deficit was still a necessary objective.[78] The 1990 Budget forecast a surplus of 2 per cent of GDP, and in a post-Budget speech Keating maintained that:

> An overblown public sector was not the only structural imbalance impacting on the current account. What has happened in the shorter term has been that as the public sector vacated market savings, the private sector has stepped in an effort to correct the structural weakness in investment that inflicted [sic] this country for 20 years. But that does not diminish the appropriateness of the Government's response to the problem which has been to pull the public sector back to the sort of levels it should have been maintained at in the first place.[79]

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74 Ibid., p. 4.
75 ABC Television, *Labor in Power*, 1993
76 Paul J. Keating and Peter Walsh, "Statement on 1988-89 Preliminary Budget Outcome," 6 July, 1989, p. 2.
77 Keating, cited in Brian Toohey, *Tumbling Dice: The Story of Modern Economic Policy*, Melbourne, William Heinemann, 1994, p. xii.
78 According to Edwards, Keating annotated an economic forecast with the words: "Noted with thanks. It makes the twin deficits theory look like bullshit. By the end of the year under forecast (1989-90) the govt [sic] will have presided over an 8 per cent shift in the PSBR. It must be a world wide post war record. 8 percentage points since 1985-86 (6 per cent public and 2 per cent private savings). Yet the current account will, according to these forecasts, be still 5 per cent of GDP. At least I can't be burdened with any more talk about reweighting the instruments of policy. We now all know what utter crap that is." Edwards, *Keating*, p. 375.
79 Paul J. Keating, "Address by the Treasurer to the National Press Club," 22 August, 1990, p. 5.

The other weapon employed against the current account deficit was monetary policy. Fearing a wider economic collapse, after the October 1987 stock market crash the Reserve Bank relaxed monetary policy in an attempt to maintain liquidity in the financial system and support growth. But the impact of the crash was not as severe on economic activity as many policy-makers and commentators thought it would be. The expansionary policy stance contributed to a rapid growth in imports and borrowing and exacerbated the current account deficit. After delaying for some time, the Government raised interest rates through 1988 and 1989 to extremely high levels in an effort to reduce domestic demand and 'cool' the 'over-heating' economy.[80] Cash rates rose from a monthly average of a little over 10 per cent in March 1988 to a little below 18 per cent in November 1989, 90 day bank bills from a little under 11 per cent to over 18 per cent, and home loan rates from 13.5 per cent to 17 per cent.[81]

By the middle of 1989, high interest rates were creating considerable difficulties for the large number of Australians who had housing loans and for businesses requiring capital to expand production. As the high interest rates started to slow the economy, businesses also suffered from the decline in demand. Despite increasing concerns about the political implications of the Government's policy stance, Keating maintained that the Government would not be influenced by those peddling alternative ideas:

> There is no disguising the fact that the deterioration in Australia's balance of payments is anything but a most serious economic problem. But this Government believes that such an imbalance can only - and I repeat only - be corrected by addressing the economic fundamentals. Unfortunately, at a time of economic tension such as this, the economic snake-oil salesmen can come to prominence. . . . You can be confident that in the face of the present economic circumstances the Government will continue to maintain its discipline and steadfastness - but above all else think clearly and not be spooked by some of the economic ratbaggery abounding at the moment.[82]

According to Edwards, the reference to "economic ratbaggery" was aimed specifically at the interest rate relief policies being advocated by Graham Richardson and considered by Hawke.[83] The message, however, was also aimed more generally to counteract widespread unease about the general direction of economic policy. Keating wanted to inform the public that there could be no going back to the past and no let up in the economic liberal direction of policy.

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80 See Paul J. Keating, "Statement by the Treasurer on August Balance of Payments," 21 September, 1989.

81 Edwards, *Keating*, p. 329.

82 Paul J. Keating, "Address to the Australian Financial Review Luncheon," Sydney, 21 June, 1989, pp. 11-12. Edwards, *Keating*, p. 372. Compare Button's scepticism about the guiding economic theories. John Button, "The Hawke Government's Initiatives and Strategies for Growth - Address to the Australian Financial Review Conference 'Industry Policy and the Hawke Government'," 14 July, 1989.

83 Edwards, *Keating*, p. 372.

According to Richardson, Keating was not just committed to high interest rates, but to establishing his authority within the Government over economic policy.[84] The whole tenor of economic policy from 1984 had revolved around the concept of discipline, in making the tough but necessary decisions, and Keating was resolute in his belief that the Government had to maintain its policy settings - maintain its discipline - if it was going to get both the appropriate structural economic changes and the necessary changes in public attitudes. The 'official family' - Treasury and the Reserve Bank - reinforced Keating's political resolve, although they were most concerned about eliminating inflationary pressures. Indeed, as it became evident in 1989 that the economy was in danger of slipping into recession, Treasury and Reserve Bank policy-makers argued that the Government needed to be cautious about loosening monetary policy because the gains made on inflation could be lost.[85]

The placement of the current account problem at the centre of economic policy by Keating and his political advisers during this period is revealed by Edwards, who recounts that:

> In Keating's office, Don Russell argued strongly that the government and Keating's reputation could not survive a widening CAD. It was the test of policy that must be passed. Now bound to their own view that the government would be judged by the state of the CAD, Keating and Russell dismissed objections.[86]

Keating's obsession with 'solving' the current account deficit meant that even after he had received advice that the economy had "topped out," he continued to support higher interest rates.[87] Seemingly unaware of the paradoxical reversal of policy aims, Keating argued that: "We have a very large investment phase on our hands, which is going to take some stopping. The aim of policy is to cut back the call of investment on saving."[88] The belief that more policy discipline is always the best economic strategy was found wanting in the late 1980s. The subordination of wider goals to 'solving' the current account deficit led to a severe recession: a classic case of 'killing the patient in an attempt to cure the disease'. The episode well illustrated the dangers of policy-makers being insulated from the impact of their decisions.

When growth re-emerged after the early nineties recession - as Keating had earlier predicted - the current account deficit blew out once again, returning as a major issue for economic policy.[89] Given that the twin deficits and monetary restriction had failed,

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84 ABC Television, *Labor in Power*, 1993.
85 Edwards, *Keating*, pp. 369 & 382.
86 Ibid., p. 353.
87 Ibid., p. 350.
88 Ibid., p. 358.
89 Steve Burrell, "Balance of Payments Set to Become Even Gloomier," *Australian Financial Review*, 16 September, 1994.

a 'new' approach was required. Increasingly, the Government argued that the expansion of compulsory superannuation would do the job. In an argument suspiciously similar to the twin deficits, the current account deficit would be lowered through the increase in the level of Australian saving and the corresponding reduction in the call on foreign saving. Increasing long-term private saving would also have the effect of lessening future burdens on the state. Keating's explanation of how superannuation would help to provide the solution for the current account problem is worth quoting at length:

> In the '60s and '70s, we ran a current account deficit of around 2.5 per cent of GDP, and we had no debt. And we had no debt because in a big continent like Australia there will always be private capital inflows of about 2.5 per cent of GDP. Now, what happened in the late '70s and early '80s was, because we dropped our guard on our capital stock and investment, the average current account deficit went to 4.5 per cent of GDP. . . . So therefore the size of the problem is 2 percentage points of GDP - in today's economy, $10 billion. That's the size of the savings hole we have got to fill. Now that's what the Government has sought to do. Let me just take you through the numbers - the change in the Budget balance is 4 per cent of GDP. . . . The problem is 2 per cent of GDP, the budget change is 4 per cent of GDP and the Treasury calculates that by the end of 2020 the super scheme will add 4 per cent of GDP. In other words we have an 8 percentage point fix for a 2 percentage point problem. . . . In the year 2000, the Treasury calculates that the superannuation changes we have in place, plus what we did on Tuesday night [in the Budget], will add 2 per cent of GDP to national savings. And the Budget is 4 per cent, and let's say there are some cyclical influences in that and wash 1 percentage point out and call it 3 per cent. So you have a 3 per cent on the Budget and 2 per cent on super, so we've got a certain 5 percentage point change in for a 2 percentage point problem.[90]

Keating, it seemed, had not abandoned his conviction that there are straightforward causal relationships between economic variables.

Over 1994 and 1995, the deficit continued to expand, but contrary to his earlier stance as Treasurer, Keating as Prime Minister resisted calls for tighter monetary policy and faster deficit reduction to 'solve' the current account deficit.[91] Not surprisingly, given the monetary policy debacle of the late 1980s, Keating and the Reserve Bank argued that interest rate policy would not be used to tackle the current account deficit.[92] Keating's change of heart had much to do with the fact that Labor's chances of re-

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90 Keating address to a business lunch in Adelaide, cited in Tom Burton, "Keating Dazzles Them With Percentages," *Australian Financial Review*, 19 May, 1995, p. 25. Burton points out that Keating had offered the same explanation in 1989, with super then providing the *longer-term* solution for foreign debt. See also Paul J. Keating, "Why My Critics are Wrong on Foreign Debt and Saving," *Australian*, 26 September, 1995, p. 13.

91 Tom Burton, Michael Dwyer and Stephen Ellis, "Keating Defies BoP Pressures," *Australian Financial Review*, 30 September, 1994, pp. 1 & 10, Michael Gordon and George Megalogenis, "Defiant Keating: Deficit Will Fall," *Australian*, 5 July, 1995, p. 1. Given the proximity of the recession, the call by commentators for a rerun of earlier failed remedies for the current account problem was astounding.

92 Michael Dwyer, "Keating Digs In On Deficit Strategy," *Australian Financial Review*, 12 October, 1994, pp. 1 & 10.

election were heavily dependent on a public assessment that interest rates would not return to the highs of the late 1980s.

The worsening current account deficit and the high historical level of foreign debt were increasingly exploited by the Coalition, who argued that Labor had solved none of Australia's economic problems in its long hold on government.[93] Government backbenchers urged Keating to repeat his earlier efforts to sell the idea that foreign debt was a matter of private concern and that Australians did not need to worry if companies like BHP borrowed overseas to fund expansion.[94] As one Labor source was reported as saying: "Keating made foreign debt sound positively good for you."[95] Keating argued that rather than a problem, increased foreign debt was an indicator of Australia's attractiveness as a location for investment.[96] In his 1996 campaign speech, Keating reiterated the point that only 5 per cent of foreign debt was Commonwealth Government debt; "the vast majority," he stressed was "*private* debt, and much of that is invested in major national projects which will be of considerable long-term value to Australia."[97] With policy having failed to generate a solution, the 'problems' of the current account and foreign debt were redefined as private market issues that were not the responsibility of government.

Keating and Willis vociferously rebutted the Coalition's assertion that increased foreign debt and a rising current account deficit necessarily meant higher interest rates and economic crisis.[98] The irony for Keating was that the level of public concern about foreign debt and the current account deficit and their association with high interest rates was fuelled by his earlier policy position and his overall insistence in the mid-1980s that the deficit required a fundamental shift in both economic policy and Australian attitudes. Public concern about the current account was fuelled by the economics education given to Australians, primarily by Paul Keating.

The belief in the late 1980s that the current account deficit could be reduced by restrictive macroeconomic policy measures led to considerable economic pain without any major structural improvement in the balance of payments. Dealing with the current

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93 See for example Michael Gordon, "Howard Evokes Banana Republic," *Australian*, 6 July, 1995, p. 1.

94 Glen Milne, "Labor Urges Keating to Account for Deficit," *Australian*, 14 August, 1995, p. 11.

95 Cited in Ian Henderson, "Keating's Conundrum on Foreign Investment," *Australian*, 14 September, 1995, p. 11.

96 See for example Ian Henderson, "Leaders Seek Political Capital in Foreign Debt Issue," *Australian*, 7 February, 1996, p. 5 and "Keating Loses Credibility on Banana Road," *Australian*, 8 February, 1996, p. 29.

97 Paul J. Keating, "ALP Campaign Launch," Melbourne, 14 February, 1996, p. 3.

98 Ralph Willis, "Press Release: Where's the Policy Truck?" Canberra, 20 September, 1995; Nina Field, "Willis Has No Truck With 'Garbage'," *Australian Financial Review*, 22 September, 1995, p. 4. See also Laura Tingle, "Panicked Labor Leaders Peddle Economic Twaddle," *Australian*, 23-24 September, 1995, p. 2.

account deficit highlighted the competing imperatives of economic policy, between the short-term necessity to deal with financial market fallout from continuing high deficit figures (released monthly) and the longer-term goal of effectively restructuring the economy.[99] The Government continually stressed the need for major investment in the manufacturing sector, but the high interest rate policy made the cost of capital prohibitive for business expansion. As Gelber and Robinson note: "The use of monetary policy to serve short run economic objectives has been inconsistent with any sensible long run industry policy."[100] Efforts to reduce economic activity and restrict asset price inflation by pushing up interest rates also increased the attractiveness of Australian dollar investments for international money managers. In such cases, one economic commentary noted, "tight monetary policy becomes 'perverse' in the sense of producing an exchange rate that is undesirably high, the high exchange rate in turn widening the current account deficit."[101]

Efforts to avoid or minimise recession could have received priority over the aim to reduce the current account deficit, regardless of the cost.[102] A less coercive approach may have avoided the severity of the recession that gripped Australia in 1990. Resort to temporary import controls, allowed under the GATT, could have restricted imports and restrictions on foreign borrowing could have slowed the build-up of foreign debt. A more strategic approach to industry policy, with an emphasis on stimulating the shift of resources into the export sector, was an alternative possibility. Such policies, however, would have weakened the Government's persuasive and coercive efforts to encourage and force Australians to adjust to the pressures of the world political economy and comprehensively break with the historical protectionist policy response to economic difficulties. Whilst some form of adjustment was inevitable, the particular form of adjustment was not. But, as the next section shows, industry policy was increasingly seen as a variation on the protectionist theme.

The Decline of Industry Policy

> There is a new and widespread rejection of that addictive drug of dependence called protectionism, which has cramped our industries at home and which is crushing our export opportunities abroad.[103]

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99 Frank Gelber and Richard Robinson, "The Current Account Deficit/Debt Problems and a Manufacturing Industry Policy" in Fred Argy (ed), *A Long Term Economic Strategy For Australia: Volume Three*, CEDA, 1993, p. 110.

100 Ibid., p. 115.

101 INDECS, *State of Play 7*, Sydney, Allen & Unwin, 1992, p. 105.

102 John Pitchford, "Macroeconomic Policy and Recession in Australia, 1982-1992," *Australian Economic History Review*, 33(2), 1993.

103 R. J. L. Hawke, "Speech to CEDA Luncheon," (15 May 1987) *Commonwealth Record*, 11-17 May, 1987, p. 718.

> The public sector must give way to the externally traded goods sector in order that we overcome our trade problem.[104]

As chapter four pointed out, the manufacturing sector had been in serious decline for more than a decade. Thousands of jobs had been lost within the sector and it was obvious that a new policy approach was needed. In 1982, the ALP released "New Directions for Australian Industry: ALP Policy for Manufacturing Industry," which asserted that a Labor Government would support new technologically advanced 'sunrise' industries, encourage a new export-focus, improve access to finance through the Australian Industry Development Corporation and the Commonwealth Development Bank, increase spending on education and skill development, and, finally, reduce tariffs when growth and employment levels improved.[105] In the same year, Opposition leader, Bill Hayden stated that the Labor Party accepted the view that "a commitment be made to lowering high levels of protection once the economic circumstances permit."[106] With the unemployment rate around 10 per cent in 1983, it appeared that reductions in tariffs would not occur for some time. Upon taking office, the new Labor Government reasserted that protection would not be reduced whilst unemployment was high. The 1983 National Economic Summit concluded:

> The summit accepts the government's commitment to retaining programs of protection in the current economic climate and the priority it is giving to matters of pressing relevance to the problems of particular industries.[107]

This reiterated the contention of the original Accord which had stated that "there is no economic sense in reducing protection in the midst of high unemployment."[108] Having just emerged from a deep recession, moves to lower protection were seen as politically untenable. The reduction of industry protection, it seemed, was easier to contemplate whilst it remained to be done in more appropriate times.

The Government, however, quickly set about disabusing economic actors of the belief that industry protection would play a role in its economic strategy. As recovery proceeded, key members of the Government increasingly attacked the follies of the protectionist past and made it clear that protection would be reduced sooner rather than later.[109] In his speech to the Summit, Industry Minister, John Button, whilst providing

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104 Paul J. Keating, "Speech to National Press Club," (14 May 1987) *Commonwealth Record,* 11-17 May, 1987.

105 Ann Capling and Brian Galligan, *Beyond the Protective State: The Political Economy of Australia's Manufacturing Industry Policy*, Melbourne, Cambridge University Press, 1992, p. 122.

106 W. G. Hayden, "Speech to Public Policy Conference," (19 November 1982) *Commonwealth Record*, 15-21 November, 1982, p. 1694.

107 R. J. L. Hawke, "National Economic Summit Communique" (14 April 1983) *Commonwealth Record*, 18-24 April, 1983.

108 ALP/ACTU, *Statement of Accord*, reproduced in Stilwell, *The Accord ... and Beyond.*

109 R. J. L. Hawke, "Prime Minister's Speech to the Washington Press Club" and "Prime Minister's Speech to the Foreign Policy Association," *Australian Foreign Affairs Record,* June 1983, pp. 267-

the obligatory reassurance on the near-term maintenance of protection, stressed that he was against special assistance to particular sectors and that too little of Australian industry was exposed to "the harsh world of international competition."[110]

Button attempted to shift the focus of industry policy away from protection towards adjustment and so-called "positive" assistance. Button was careful, however, to point out that government could only do so much. To those hoping that the Government would embrace a more comprehensive and strategic approach, he pointed out that industry policy did not "imply detailed prescriptive planning and it cannot disregard market disciplines." The Government, he added, "cannot be involved in any detailed attempts to 'pick winners'."[111] Australian industry and the wider population needed to abandon insularity and protection and shift their focus to the world economy. "The Government is convinced," Button argued in 1983, "of the need for measures to encourage business to adopt a more global perspective."[112]

Given the problems of Australian industry and the Government's connections to the union movement, the policy shift had to be gradual, at least initially. To help manage the restructuring process a number of industry plans were developed. In the case of the steel industry, the plan was more the result of crisis than strategic foresight. The steel industry had suffered enormous job losses over the preceding years, prompting a massive demonstration in Canberra in early 1983. The plan provided assistance to BHP in return for the maintenance of employment and an undertaking by the company to invest $800 million in modernisation programmes. As their part in the deal, the unions agreed to restrict wage demands.[113] Over the next couple of years the steel industry recovered and profits returned, although it is not entirely clear whether this was due to the Government's actions or to the economic upturn that followed the announcement of the plan.[114] Plans for the car industry and the textiles, clothing and footwear sector soon followed. These industries were reliant on extremely high levels of protection and the aim was to gradually lower protection levels, manage the reduction in the number of

279; John Button, "Speech to Regional Economic Symposium" (7 May 1984) *Commonwealth Record*, 14-20 May, 1984, p. 877; R. J. L. Hawke, "Industrial Relations and Economic Policy" in *National Reconciliation: The Speeches of Bob Hawke Prime Minister of Australia*, Melbourne Fontana/Collins, 1984, p. 179. For other attacks on protection see John Dawkins, "Speech to Australian-American Chamber of Commerce," (6 June 1986) *Commonwealth Record*, 16-22 June, 1986, p. 1011; Barry Jones, "Speech to Victorian ALP," (13 April 1986) *Commonwealth Record*, 28 April - 4 May, 1986, pp. 678-679.

110 John Button, "Speech to National Economic Summit," (14 April 1983) *Commonwealth Record*, 11-17 April, 1983, p. 444.

111 John Button, "Speech to Regional Economic Symposium," (7 May 1984) *Commonwealth Record*, 14-20 May, 1984, p. 878.

112 John Button, "Industrial Development Policy," (23 August 1983), *Commonwealth Record*, 22-28 August, 1983, p. 1327.

113 Capling and Galligan, *Beyond the Protective State*, pp. 183-184.

114 Ibid., p. 191.

industry players and, if possible, increase their international orientation. In sum, the plans aimed to maintain support for old inefficient industries in the short-term, whilst gearing them for future changes to their assistance regimes. Whilst the plans pleased some, their focus on 'lame duck' industries was not what many advocates of industry policy had in mind.

In 1985, the Government tentatively began the long process of dismantling protection. Tariffs were reduced in the imported telecommunications sector from 30 per cent to 20 per cent and, in 1986, protection for the chemicals and plastics industries was reduced from 45 per cent to 15 per cent.[115] Button pointed out that the Government had "adopted two complementary strategies":

> The first strategy is to deal with the structural problems of mature industries which developed under the highly protective regimes of previous decades. The purpose of this strategy is to provide these sorts of industries with a period of adjustment to increased international market force pressure, with the ultimate objective of seeing them stand on their own feet in the international market place. . . . Of far more importance, however, to manufacturing industries of the future are industry policies of general application designed to improve outward orientation, technological capacity, and growth in new areas.[116]

Despite Button's attempt to downplay industry policy possibilities, there were considerable pressures from the Party and the union movement for a more comprehensive stance. Keating believed that interventionist industry policies were not necessary because the increase in domestic demand, the revitalisation of the profit share through wage restraint and, especially, the depreciation of the dollar would automatically improve the competitiveness of the manufacturing sector (the J-curve effect). Accordingly, manufacturing industry would be able to reinvigorate itself under more favourable macroeconomic conditions.[117] Button, however, was sceptical about the ability of Australian manufacturing industry to revitalise itself given its lack of export-orientation and declining competitiveness. He explained that: "I am not one of those who believes that if you get the macroeconomic settings right, that something will inevitably happen to ensure that our industries come right overnight."[118] The J-curve, Button added, was more relevant for countries such as Sweden or Germany with efficient and globally competitive manufacturing sectors. With its exports predominantly from the primary commodities sectors, Australia was likely to

115 Randal Stewart, "Industrial Policy" in Randal Stewart and Christine Jennet (eds), *Hawke and Australian Public Policy*, Melbourne, Macmillan, 1990, p. 110.
116 John Button, "Speech to CEDA Symposium," (9 July 1985) *Commonwealth Record*, 8-14 July, 1985, p. 1115.
117 See for example Paul J. Keating, "Speech to Asia Society," (22 April 1985) *Commonwealth Record*, 22-28 April, 1985, p. 565.
118 John Button, "Speech to Metal Workers Union," (15 July 1986) *Commonwealth Record*, 21-27 July, 1986, p. 1186.

experience only slow improvements in competitiveness from currency devaluation.[119] By 1986, it was evident that macroeconomic policy change was not going to be sufficient for the substantial structural adjustment required in the Australian economy.[120]

In 1987, the ACTU released *Australia Reconstructed*, a comprehensive manifesto for interventionist and strategic industry policies to restructure the Australian economy. The ACTU agreed that there was a need for widespread policy change given the competitive challenges facing Australia, but it believed that increasing the international orientation of Australian industry required more comprehensive assistance and incentive measures. Whilst the document was given lip service by the Government, in the main its advocacy of industry policy and other Western European-style reforms was ignored. The document was not well received by business. As Beilharz puts it: "One could hear copies thud into a thousand executive rubbish bins around the nation."[121] As part of the interventionist strategy, the role of unions was to be expanded and this did not fit the agenda of most business groups which were keen to see the unions play a lesser role. Indeed, most wanted the Government's shift to economic liberalism extended more rapidly to industrial relations.

More influential on the direction of policy was the economically liberal Industries Assistance Commission. The IAC criticised proposals which endorsed selective targeting of industries and argued that: "The general objective of a competitive industry structure must have priority over the adjustment averting demands of particular sections."[122] The IAC was concerned that the Government remained too willing to embrace selective assistance policies:

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119 John Button, "Speech to Bureau of Industry Economics," (9 April 1986) *Commonwealth Record*, 14-20 April, 1986, p. 571.

120 In 1989, Button could no longer hide his disdain for economic theory: "First they told us that the dollar's depreciation would do the trick via the now long forgotten and unlamented J-curve. Then we had the W-curve theory which supposedly took account of the lags. But these 'theories' grossly overestimated the response that could be expected of a narrowly-based and somnambulant industry sector. Next they told us about the twin deficits thesis . . . Needless to say, after we had achieved what really is a miracle in Australia and eliminated the public sector borrowing requirement, the correlation between the budget deficit and the current account deficit promptly disappeared up its own R-squared." John Button, "The Hawke Government's Initiatives and Strategies for Growth (Address to the Australian Financial Review Conference 'Industry Policy and the Hawke Government')," Sydney, 14 July 1989. When interviewed by Button on the Nine Network's Business Sunday programme on 15 August, 1993, Keating admitted that Button was probably right about the ineffectiveness of the J-curve. Laura Tingle, "Seven Years On PM Admits Button Was Right On J-Curve," *Australian*, 16 August, 1993, p. 2.

121 Peter Beilharz, *Transforming Labor: Labour Tradition and the Labor Decade in Australia*, Melbourne, Cambridge University Press, 1994, p. 140.

122 Industries Assistance Commission, *Annual Report 1985-86*, Canberra, AGPS, 1986, p. iv. See also Industries Assistance Commission, *Annual Report 1984-85*, Canberra, AGPS, 1985, pp. 11-12; Industries Assistance Commission, *Annual Report 1986-87*, Canberra, AGPS, 1987, pp. 9-11.

> There is general agreement on the *objective* of achieving an efficient and internationally competitive economy. Nevertheless, much emphasis in industry policy *implementation* continues to be tailored to the requirements of particular industries. This has not helped to change the 'preferment' mentality which developed under the protectionist policies of the past, and has provided industry with ambivalent signals about the long-term objective itself.[123]

Tariff liberalisation, microeconomic reform and an "economy-wide approach" were, the IAC maintained, needed to advance the national interest. Such reforms, it was argued, would lead to lower prices and a more efficient allocation of scarce resources at the expense of the vested 'rent-seeking' interests which prosper when policy favours particular sectors and sways from the market path.[124]

The reduction in industry protection began in earnest in May 1988 when the Government announced a programme of general tariff reductions. Keating stated that:

> There are to be big cuts to industry protection through tariff reductions, which will lower costs and further encourage our manufacturers to look beyond Australia for market opportunities. Similarly, the high levels of government assistance to some pockets of primary industries will also be reduced.[125]

The cuts were significant: by 1992, tariffs over 15 per cent were to be reduced to 15 per cent and those between 10 per cent and 15 per cent were to be reduced to 10 per cent. The Statement also included other reductions in industry assistance with the removal of certain tax incentives for industry, a decrease in accelerated depreciation measures and a reduction in the research and development allowance. The Government not only reduced effective rates of assistance by 20 per cent but decreased "the dispersion in assistance levels between industries." In agriculture, the decisions reduced the average effective rate of assistance "from about 16 per cent in 1986-87 to a projected 11 per cent in 1992-93."[126] The cuts did not extend, however, to the employment-vulnerable car and TCF industries which were already undergoing (more gradual) tariff reductions through industry plans.[127] As with the earlier reductions, a sharp decline in the value of the dollar softened the impact of the cuts.[128] The Government also signalled that

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123 Industries Assistance Commission, *Annual Report 1986-87*, p. 17.
124 Industries Assistance Commission, *Annual Report 1988-89*, Canberra, AGPS, 1989.
125 Keating, *Economic Statement: May 1988*, p. 2.
126 Ibid., pp. 131 & 135.
127 Chemicals and plastics were already to be reduced from a maximum tariff rate of 20 per cent at the time of the statement to 15 per cent by 1992; communications from 26 per cent to 20 per cent by 1989; glass and glassware from 30 per cent to 15 per cent by 1991; luggage from 20 per cent to 15 per cent by 1989; medical and scientific from 25 per cent to 15 per cent by 1990; passenger motor vehicles from 45 per cent to 35 per cent by 1992; pulp, paper and printing from 40 per cent to 15 per cent by 1990; textiles, clothing and footwear from 205 per cent to 60 per cent by February 1996; and vegetable products from 40 per cent to 10 per cent by 1994. Ibid., p. 123. For the detail of the existing plans for the passenger motor vehicle industry and the textiles, clothing and footwear industries see Ibid., pp. 124-125.
128 Capling and Galligan, *Beyond the Protective State*, p. 150. As the value of the currency declines, the prices of imports increase, providing a similar effect to tariffs by increasing the competitiveness of Australian-produced goods against imports.

competition was to be extended to Telecom and OTC, and that other Commonwealth business enterprises, including Qantas, Australian Airlines, and Australia Post, were to be put "on a more commercial and efficient footing [and] . . . freed of many of their present day bureaucratic controls." They were, the Government emphasised, to be "held more accountable for their own performance" with their managements required "to measure up."[129] Overall, the Statement represented a significant step towards the dismantling of protection. Keating stressed that:

> The way forward for Australia is not to be closeted and sheltered but to be open and dynamic, trading aggressively in the world. Only this kind of economy can provide the employment and rising living standards that Australians aspire to.[130]

In his 1988 Budget speech, Keating argued that the Government's financial, taxation and tariff reforms had made the Australian economy "truly international" bringing about a "new age of Australian internationalism."[131] Reflecting his view that the Australian economy had suffered in the past from excessive intervention, Keating, pilloried the follies of post-war policy-makers: "During those decades, governments around the world sowed the seeds of their own decay through misplaced interventions in their own economies to buy off this or that interest group."[132] The policy changes contained in the Statement, Keating believed, signalled a substantial effort to break with the mistakes of the past.

Although the reduction in protection increasingly dominated the Government's industry policy agenda, it is necessary to acknowledge that there were some significant non-tariff assistance measures. Sectoral strategies for new industries were put in place after 1986 in areas such as biotechnology, communications equipment, medical, dental and veterinary equipment, and the information and aerospace industries.[133] An Information Industries Strategy was designed to ensure that multinational corporations which entered into agreements with the Australian public and private sectors would increase "local R&D expenditure to 5 per cent of total sales turnover in Australia and achieve a 50 per cent export to import ratio within 5 years."[134] By placing informal obligations on companies, the 'Partnerships for Development' scheme aimed to use public procurement to generate industry development.[135] These policy initiatives led to

129 Keating, *Economic Statement: May 1988*, pp. 18 & 151-154.
130 Ibid., p. 16.
131 Keating, *Budget Speech 1988-89* , pp. 11-12.
132 Paul J. Keating, "Address to the National Press Club," 24 August, 1988, p. 2.
133 Capling and Galligan, *Beyond the Protective State*, p. 134.
134 Ibid., p. 139.
135 Evan Jones, "Multinational Companies and the Balance on Current Account," *Journal of Australian Political Economy*, 30, December, 1992, p. 83.

considerable improvements in the export-orientation of the manufacturing sector.[136] As Ralph Evans points out:

> Half of our top 20 exporters of goods not depending essentially on resource advantages owe their presence in the top 20 list significantly to government interventions such as the steel plan or the Partnerships in computers, which are wrongly seen in Canberra as unfortunate lapses from the true path.[137]

At the end of the 1980s, two major reports were released which had significant implications for industry policy. In 1989, the Government released a report written by Hawke's former economic advisor, Ross Garnaut, entitled *Australia and the Northeast Asian Ascendancy*. This was followed by *The Global Challenge: Australian Manufacturing in the 1990s*, a report for the Australian Manufacturing Council written by the Pappas Carter Evans and Koop/Telesis consultancies.[138] Though agreeing on the need to restructure and increase the export-orientation of the Australian economy, the reports differed on the most appropriate strategy to achieve these aims. As such they reflected the continuing policy debate within the business community, the Party and the wider labour movement, about the 'type' of globalisation Australia should be embracing. Garnaut came down firmly on the side of economic liberalism, whilst the AMC Report preached strategic interventionism. Although the Government praised both reports for their global focus, the perceived connection of the AMC's recommendations with so-called 'new protection' blunted its impact on policy.

After the release of the March 1991 Economic Statement, *Building a Competitive Australia*, it was evident that Garnaut's views had gained the ascendancy.[139] Interventionist industry policy was belittled by Hawke:

> We have rejected the views of the so-called 'new protectionists' because they are simply proposing, in effect, the same discredited policies that had isolated our national

136 Ibid., p. 63.

137 Ralph Evans, "The Global Challenge Report and the Clash of Paradigms" in Michael Costa and Michael Easson (eds), *Australian Industry: What Policy?*, Sydney, Pluto Press, 1991, p. 44. See also Stewart, "Industrial Policy."

138 Ross Garnaut, *Australia and the Northeast Asian Ascendancy*, Canberra, AGPS, 1989 and Pappas Carter Evans & Koop/Telesis, *The Global Challenge: Australian Manufacturing in the 1990s*, Melbourne, Australian Manufacturing Council, 1990. For a comparison of the two reports see *Internationalising Australia's Economy*, Sydney, Australian Graduate School of Management, 1991 and Ian Marsh, "Strategic Policy-Making as a Political 'Learning System'," *Canberra Bulletin of Public Administration*, 73, September, 1993. For Garnaut's academic views, see also Kym Anderson and Ross Garnaut, "The Political Economy of Manufacturing Protection in Australia" in Chris Findlay and Ross Garnaut (eds), *The Political Economy of Manufacturing Protection*, Sydney, Allen & Unwin, 1986 and Ross Garnaut, "The End of Protection and the Beginnings of a Modern Industrial Economy: Australia in the 1990s," *Australian Quarterly*, Autumn, 1991. The AMC was a tripartite advisory body established after the National Economic Summit Conference.

139 In the statement Hawke revealed that: "The Government has been fortified in its approach by a number of recent reports, not least Dr Ross Garnaut's report *Australia and the Northeast Asian Ascendancy*." Hawke, Keating and Button, *Building a Competitive Australia*, p. 1.7.

> economy from the rest of the world and caused the great damage we are all working to repair.[140]

The Government declared that tariff reductions were the most important reform to be undertaken because only they would ensure the adjustment of Australian industry to world economy pressures and competition. An interventionist industrial strategy, even if rigorous in terms of commitments to invest or time limits, was seen as countering state efforts to persuade industry and workers that being competitive meant being self-reliant. The Government argued that there could be no going back to the discredited policies of the past, even in the middle of the worst recession for 60 years. Revisiting the policies of protectionism (and even a tariff pause may have been seen as protectionist), would have undermined the message that globalisation was forcing adjustment. It was one thing to reduce protection during periods of currency depreciation or times of growth, but the genuine test, the test that the Whitlam Government had failed, was to destroy the idea that protectionism provided a real solution to economic difficulties. Reducing tariff levels during a recession was the ultimate symbol of the Government's faith in economic liberal globalisation. Keating went so far as to claim that: "With these measures we complete our transition to an open economy."[141]

Hawke and Keating and other like-minded Ministers had effectively marginalised those in the Party and the union movement who wanted both a moratorium on tariff cuts during the recession and a more activist (non-tariff based) industry policy for the future. Reaction to the Statement was favourable among the media and other economic liberal commentators. The ACTU leadership was more equivocal (reflecting the considerable distance it too had travelled in the 1980s), with its President, Martin Ferguson, remarking that the Statement resembled "a sweet and sour Chinese dish," with the large tariff cuts one of the "sour aspects." The reaction from many others in the Party and the union movement, however, was hostile.[142]

Building a Competitive Australia cut remaining tariffs substantially. The general level of assistance was to be reduced from the 10 and 15 per cent levels declared in May 1988, to a general rate of 5 per cent by 1996; motor vehicle tariffs were to be reduced from 35 per cent to 15 per cent by 2000 (in annual increments of 2.5 per cent); textiles, clothing and footwear tariffs were to be reduced to a maximum tariff level of 25 per cent in 2000, with quotas being terminated by March 1993, two years earlier than planned; and finally, general agricultural assistance was to be reduced "in line with the

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140 Ibid.
141 Ibid., p. 2.12.
142 Francis Castles, "How Not to Make Friends and Influence People," *Australian Society*, April, 1991. See also the views of the various players in ABC Television, *Labor in Power*.

pace of tariff reform in manufacturing."[143] According to Capling and Galligan, the tariff reductions put "the last nail in the coffin" of protectionism in Australia.[144]

As noted in chapter five, after becoming Prime Minister in December 1991, there were concerns that Keating had abandoned his previous unequivocal support for tariff liberalisation, when he announced that the tariff cuts of 1991 "were not the stepping stone to further downward adjustment."[145] For economic liberal commentators this was "a backflip on tariffs."[146] The Government's economic liberal rhetoric was relaxed in an attempt to expose the rigid, uncompromising economic liberalism of the Coalition, indicated in this case by its support for zero tariffs. The Coalition's policy of zero tariffs, Keating contended, would lead to the destruction of the car industry and the textiles, clothing and footwear industries. Although it had been the Labor Government which had cut tariffs and increased the pace of job losses in these industries, the Coalition's policies, it was argued, would lead to *further* unnecessary job losses. The difference between the two parties on tariff policy was more apparent than real, but the Government aimed to foster the perception that the Opposition leader, John Hewson, and his industry spokesman, Ian McLachlan, were inflexible economic ideologues.[147] The Keating Government's softening of its tariff policy in the lead up to the 1993 election involved a recognition of the fact that significant sections of its electoral constituency were not attracted to its economic liberal policy programme. The extent of the Government's shift in rhetoric, however, should not be exaggerated. Keating continued to support and justify the earlier decisions and showed no sympathy for those companies affected by liberalisation: "frankly," Keating declared, "we are better off without them and having national resources going into something which is competitive and which will employ people."[148]

After the election, Keating soon alleviated fears that he had been converted to the interventionist industry policy cause. Instead, he asserted that

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143 Hawke, Keating and Button, *Building a Competitive Australia*, p. 1.6. See section 5 of the document for the detail of the measures.

144 Capling and Galligan, *Beyond the Protective State*, pp. 155-160.

145 Paul J. Keating, "Statement by the Prime Minister: Summary of Remarks to EPAC - Tariffs," Canberra, 27 March, 1992, p. 1. Keating pointed out that he had announced in *Building a Competitive Australia* that the tariff cuts "complete the programme announced in the Economic Statement of 1988."

146 See for example Laura Tingle, "Keating Backflip on Tariffs," *Australian*, 27 March, 1992, p. 1. See also example Tim Duncan, "The Pandora's Box of Protectionism," *Australian*, 25-26 April, 1992, p. 20.

147 The difference between the two parties was accentuated by media reports. See for example Peter Roberts and Steve Lewis, "Button Believes in Nurturing Industry . . . But McLachlan Will Let Them Look After Themselves," *Australian Financial Review*, 3 March, 1993, p. 12; John Mellor, "Libs Would Kill Industry: Button," *Australian*, 3 September, 1992, p. 17.

148 Keating cited in *Australian*, September 29, 1992.

> We have set ourselves on an irreversible path of winding down the tariff protection which for so long fettered the Australian economy. A practical, sensible and measured programme. . . . Of course, we do not face a level playing field in the world economy. But my answer is not to prop up industries that can only survive in a protected domestic market. Rather the answer is to use dexterity and awareness to ensure that Australian industry can compete effectively in the world.[149]

The new industry minister, Alan Griffiths, however, began canvassing a more activist policy stance, including a reinvigoration of "customised strategies for particular industries" and tripartism.[150] Whilst Griffiths was keen to point out that globalisation was now the most important consideration and that industry policy was now in a "post-protection era," an industry department draft for the prospective 1994 industry statement emphasised that: "New growth theory suggests greater grounds for selective pragmatic intervention in the national interest."[151] Whether or not Griffiths' attempt to revitalise industry policy would have continued without being modified in Cabinet is a moot point. What is clear is that upon his removal over the 'sandwich shop affair', his replacement, Peter Cook, immediately set about lowering expectations about interventionism. Griffiths' removal from the industry portfolio was well received by economic liberal commentators. The *Australian Financial Review*, for example, wrote: "If the sandwich-bar santa had his way, a dozen lucky industrial sectors would have basked in the taxpayer-fuelled Canberra sunshine. . . . But the lucky country's industrial future has, by political accident, lurched into the more sober guidance of Senator Cook."[152]

Cook quickly dismissed the prospect of new sectoral plans. Past plans, he argued, had been to help industries in the transition from a protected to internationalised economy and were now no longer necessary. Instead, Cook asserted that Australia was entering a "third phase of industry policy." Whilst industry policy before the Hawke Government had been "handout policy":

> During the '80s, industry policy was about adjusting to the experience of internationalisation - smoothing the transition to a globally integrated economy. . . . Today we are on about building the most competitive environment possible and building competitive firms.[153]

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149 See Paul Keating, "It is Possible We Are Now Within Reach of a New Era of Prosperity (Speech to Institute of Company Directors)," *Australian*, 22 April, 1993, p. 4.

150 Laura Tingle, "Griffiths Previews 'Customised' Industry Policy," *Australian*, 22 November, 1993, p. 3; See also Alan Griffiths, "The Implied Covenant: Government and Industry Working Together in the 1990s," *Sydney Papers*, Spring 1993; George Megalogenis, "Captain of Industry," *Australian*, 7 June, 1993, p. 9; Robert Garran, "Griffiths to Revamp Industry Policy," *Australian*, 25 October, 1993, p. 3.

151 Robert Garran, "$200m Plan to Boost Industry," *Australian*, 6 January, 1994, p. 1; Alan Griffiths, "The Need for a Whole of Government Approach to Industry Policy," Canberra, 22 November, 1993, p. 2.

152 Cited in David Shires and Steve Lewis, "Cooking Up a Storm," *Australian Financial Review*, 25 April, 1995, p. 13.

153 Tim Dodd, "Cook to Give Last Rites to Sectoral Industry Plans," *Australian Financial Review*, 15 April, 1994, p. 4. Earlier Cook had remarked: "I am not a fan of sectoral policies." Louise Dodson,

Sectoral plans ran the risk, according to Cook, of undermining Australia's commitment to multilateral trade agreements.[154] As noted in the next section, the Government's free trade agenda influenced and restricted other policy initiatives as well. The Bevis Report's suggestion "that agencies must maximise the ANZ content in their procurement" was toned down to suggest that agencies must "maximise *opportunities* for Australia and New Zealand industry development."[155] Such a change can be attributed to the GATT-inconsistent nature of the original suggestion.

In the industry policy component of its May 1994 policy document, *Working Nation*, the Government stressed that intervention should involve efforts to 'work with markets', enhancing the ability of economic actors to take advantage of growth opportunities, rather than restricting or directing economic activities. Accordingly, it was necessary to move from innovation-stifling regulatory measures to incentive-based policies.[156] *Working Nation* stated that, although "markets left to themselves will not always deliver the best possible outcomes," this was because of a "lack of competition," or "the inability of firms to obtain all the benefits from an activity and information deficiencies." It was equally important to be aware, the document stressed, of the dangers of "government failure." Rather than focus on sectors or industries, the Government continued to stress that its aim was to provide a conducive environment - sound macroeconomic policies and continuing microeconomic reform - within which competitive firms could operate.[157] *Working Nation* stated that:

> The present objective of industry policy adapted to the new environment facing firms, is to accelerate the internationalisation of the Australian economy by focusing on the factors critical to success in the global marketplace. This encompasses innovation, uptake of new technology, business improvement, and exporting. . . . An open economy leaves no room for subsidies that prop up uncompetitive firms, nor for detailed prescriptions for industry where government directs the flow of resources.[158]

Cook actively sought to downplay business expectations about industry policy by asserting that particular industry sectors should not receive preferential treatment. Where government could play an additional role was in promoting Australian business overseas and improving market access. The new phase of industry policy, Cook

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"Government Reveals Radical Plan for Industry," *Australian Financial Review*, 17 February, 1994. See also George Megalogenis, "Cook Rings Changes at Industry," *Australian*, 17 February, 1994, p. 21; Florence Chong, "How to Create a Flourishing Export Culture," *Australian*, 23 March, 1994, p. 35;

154 Dodd, "Cook to Give Last Rites to Sectoral Industry Plans."

155 John Hilvert "Report to Cut the Criticism," *Australian*, 3 May, 1994, p. 19. Emphasis added.

156 Paul J. Keating, *Working Nation: Policies and Programs*, Canberra, AGPS, May 1994, p. 59.

157 Ibid., ch. 3.

158 Ibid., p. 57.

stressed, needed "to be informed by what the global market is telling us and how Australia wins its place in that global market."[159]

In the lead up to the 1996 election, Keating and Cook attempted to focus the industry policy agenda on 'innovation'. Innovation, according to Cook, was about "encouraging industry to be more competitive, so if people think that this is going to be the means for another government handout under another guise, they're wrong."[160] Whilst Cook argued that the labour movement accepted that there was no alternative to the low tariff regime, his approach was not well received by many members of the Labor Caucus who believed that the Government needed to do more to support industry.[161] Both Cook and Keating, however, remained steadfast in their support for an increasingly minimalist industry policy.[162] Reflecting the argument that expensive industry policies were no longer appropriate, the Innovation Statement, Keating pointed out, "provides for measures that will raise $353 million more in revenue than will actually be spent."[163] The aim, Keating announced, "was to make Australia "APEC-ready: ready to respond to the challenges and to realise the commercial opportunities of the free trade and investment environment we have in the making."[164]

During its final term of office, Labor's industry policy increasingly involved efforts to encourage firms to shift to a global focus. Reports such as *Emerging Exporters: Australia's High Value-Added Manufacturing Exporters* and *Winning Enterprises: How Australia's Small and Medium Enterprises Compete in Global Markets* were all part of the process of selling globalisation to those firms which had not yet taken up the 'challenge'.[165] The argument was that if some small and medium sized firms had successfully embraced the global economy, then others could do so as well. Encouragement, it was hoped, would change insular attitudes and lessen the need for continuing and costly financial assistance.[166]

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159 Robert Garran, "A Hive of Industry," *Australian*, 20 September, 1994, p. 59. See also Robert Garran, "Cook Finds a Role For His Department," *Australian*, 28 November, 1994, pp. 19-20.

160 Shires and Lewis, "Cooking Up a Storm," p. 13.

161 Glen Milne, "Innovate or Evaporate," *Australian*, 25 September, 1995, p. 9.

162 See for example Peter Cook, "Address to the National Conference of the Australian Chambers of Manufactures: 'Innovation: The Future for Australian Industry'," Melbourne, 7 September, 1995, pp. 12-13.

163 Paul J. Keating, "Innovate Australia: Speech to the National Trade and Investment Outlook Conference," Melbourne, 6 December, 1995.

164 Ibid. See also Michael Gordon, "PM Eyes Poll in $465m Business Ticket to Asia," *Australian*, 7 December, 1995, p. 1 and other stories in the same edition.

165 McKinsey and Company and the Australian Manufacturing Council, *Emerging Exporters: Australia's High Value-Added Manufacturing Exporters*, AMC, 1993; Department of Foreign Affairs and Trade, *Winning Enterprises: How Australia's Small and Medium Enterprises Compete in Global Markets*, Canberra, AGPS, 1995.

166 For example see Louise Dodson, "Industry Policy More Talk than Action," *Australian Financial Review*, 12 September, 1995, p. 30.

By the middle of the 1990s, despite continuing negative reactions from the manufacturing sector, business increasingly accepted, or, at least, was resigned to the opening up of the Australian economy and the removal of protection.[167] Even within the manufacturing sector, groups such as the Metal Trades Industry Association, which had vehemently opposed tariff liberalisation at first, eventually changed their stance.[168] In general, business opposition to tariff reductions was muted by the growing business consensus about the benefits of economic liberalism and globalisation.[169] To a significant extent, however, the need to persuade business about the benefits of globalisation had been overtaken by the coercive effect of tariff reductions. Increasingly, Australian business had to adjust to an international trade system that was far from the ideal of free trade. Given the Government's support for tariff liberalisation, it was vital that efforts were made to buttress domestic reform with a more supportive trade regime.

Selling Free Trade at Home and Abroad

> I was not simply tilting in the direction of free trade for the sake of appearances. I aimed to do something about it from the very beginning.[170]
>
> Much remains to be done, but there is one thing which we know will without doubt reduce all our problems, and that is stronger and stronger trade.[171]

Australian trade policy under Labor placed considerable faith in free trade through both multilateral and regional forums. The support for multilateralism was a considerable change from Australia's post-war refusal to actively engage in the GATT process. Given this 'poor' record, Hawke argued that Australia needed greater credibility in multilateral trade negotiations: "A demonstrated commitment to continue steadily with domestic liberalisation will greatly add to our credibility and negotiating position."[172] Australia, he stressed, could not afford to wait for other countries to liberalise. The free trade agenda increasingly became an essential component of Labor's foreign policy, a

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167 Continuing dissatisfaction with government embrace of economic liberalism is evident in a survey of manufacturers by the Australian Chamber of Manufactures. See Ian Porter, "Economic Rationalism is Spurned by Manufacturers," *Australian Financial Review*, 22 July, 1997, p. 6.

168 Bob Catley, *Globalising Australian Capitalism*, Melbourne, Cambridge University Press, 1996, p. 99.

169 Peter Vercoe, "The Removal of Tariffs a Godsend for Some," *Australian*, 14 July, 1995, p. 30.

170 Hawke, *The Hawke Memoirs*, p. 166.

171 Paul Keating, "Election 1993 - The Government's Agenda," *Australian Quarterly*, Autumn, 1993, p. 465.

172 Hawke, cited in Industries Assistance Commission, *Annual Report, 1984-85*, Canberra, AGPS, 1985, p. 4. Earlier, Hawke had contended that: "We have been careful to ensure that our domestic industry policy decisions are consistent with our international trade policy. R. J. L. Hawke, "Speech to Business Council," (21 September 1984) *Commonwealth Record*, 17-23 September, 1984, p. 1842.

shift signalled by the formation of the new mega-department of Foreign Affairs and Trade in 1987. The eulogising of free trade was a consistent tenet of Hawke's rhetoric on trips overseas. Hawke declared that:

> Trade is the outstanding manifestation of the central condition of our existence and indeed our very survival in the modern world - the indivisibility - the essential oneness of the human race. Further, trade, by allowing international competitive forces to operate, forms an international price mechanism and with it the basis for a rational and efficient allocation of resources and for sustained growth.[173]

Although Australia had long been disadvantaged by the exclusion of agricultural trade from GATT negotiations, in the 1980s agricultural trade problems intensified in the context of a collapse in Australia's terms of trade. Australia was caught in the crossfire of trade conflict between the US and the European Union. US retaliation against European agricultural policies often impacted negatively on Australian producers. In response, Hawke, Keating and Trade Minister, John Dawkins, spent considerable effort in the mid-1980s attempting to sell free trade to the Europeans and imploring the US to consider Australia's interests.[174] To support these efforts the Government used Industries Assistance Commission research to highlight the gross inefficiencies of agricultural protectionism, particularly in the European Community.[175] On a more practical level, Australia helped to form the Cairns Group of agricultural exporters which aimed to increase the negotiating power of its members through collective influence and bargaining. The initiative was successful in securing the inclusion of agriculture in the Uruguay Round of GATT negotiations that began in 1986.

Liberalising its protectionist regime meant that Australia, if it was to operate on a 'level playing field', was increasingly dependent on other countries to do the same. As Higgott points out: "For a domestic adjustment process, based on a neo-liberal agenda of openness to the international order, to be successful, the evolving international order has to be conducive to that process of reform."[176] Even Hawke acknowledged that: "Australia's trade and industry policies will be fully effective only to the extent that

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173 R. J. L. Hawke, "Speech to Centre for European Policy Studies," (4 February 1985) *Commonwealth Record*, 4-10 February, 1985, p. 97.

174 See for example R. J. L. Hawke, "Speech to National Press Club - Washington," 26 June, 1989, pp. 4-5; Paul J. Keating, "Speech to IMF-World Bank Annual Meetings," (1 October 1986) *Commonwealth Record*, 29 September-5 October, 1986, pp. 1725-1726. John Dawkins, "Speech to the Trade Policy Research Centre," (24 September 1986) *Commonwealth Record*, 6-12 October, 1986. See also the account of the various players on ABC Television, *Labor in Power*. The attempt to educate the Europeans continued into the 1990s. See for example Michael Gordon, "Keating Warns Europe It Must Open Markets," *Australian*, 15 March, 1995, p. 2; Tom Burton, "Dutch Find Super-Salesman Keating Can Be a Real Treat," *Australian Financial Review*, 15 March 1995, p. 7.

175 Ross Garnaut, "Summing Up" in *Internationalising Australia's Economy*, Sydney, Australian Graduate School of Management, 1991, p. 225.

176 Richard Higgott, "The Politics of Australia's International Economic Relations: Adjustment and Two-Level Games," *Australian Journal of Political Science*, 26(2), 1991, pp. 7-8.

they are supported by the rules and disciplines of the international trading system."[177] Not all countries, especially many of Australia's major trading partners, were as enamoured of free trade and economic liberalism as Australia was under the Hawke and Keating Governments. Protectionism, subsidisation, restrictions on competition and non-tariff barriers continued to be an important facet of the world political economy. But, rather than domestic liberalisation being bargained between countries bilaterally or multilaterally, economic liberals argued that liberalisation should go ahead regardless of what other countries did because it was beneficial in itself.[178] The Government concurred, with Hawke insisting that: "The continuation of domestic liberalisation is in any case fully justified by the domestic benefits, independently of the trade policy rewards which it makes possible."[179] In the March 1991 Industry Statement, Hawke reiterated this sentiment, arguing that, despite the use of protectionism by other countries, "our own interest is best served by a steadfast refusal to return to the days of protectionism."[180] Keating, as Prime Minister, also supported this position: a continuation of protectionism in Australia could in no way be justified by the actions of other states. Instead, it fell to countries like Australia to break the cycle of global protectionism by steadfastly committing itself to free trade.[181]

Higgott suggests that the Hawke Government's trade diplomacy should be considered within the framework of "two-level bargaining."[182] The Government's foreign economic policy had both international and domestic purposes: internationally, the aim was to maintain the open trade order and lower agricultural protectionism and to signal that Australia had moved away from protection; domestically, the aim was to signal, firstly, to agricultural interests that the Government was working on their behalf and, secondly, to opponents of domestic economic reform that the Government was steadfast in its liberal policy direction. As Ravenhill argues, the aim of the Government to appear as 'good free traders' acted "as a means of symbolically tying its hands."[183]

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177 R. J. L. Hawke, "Speech to Centre for European Policy Studies," (4 February 1985) *Commonwealth Record*, 4-10 February, 1985, p. 98.

178 Industries Assistance Commission, *Annual Report, 1984-85*, Canberra, AGPS, 1985, pp 1-4 and Industries Assistance Commission, *Annual Report, 1985-86*, Canberra, AGPS, 1986, pp 1-6.

179 Hawke, cited in Industries Assistance Commission, *Annual Report, 1984-85*, p. 4.

180 Hawke, Keating and Button, *Building a Competitive Australia*, p. 1.7.

181 Paul J. Keating, "Election 1993 - The Government's Agenda," *Australian Quarterly*, Autumn, 1993, p. 478. Keating had argued in 1986, the use by other countries of protection and active industry policies "impose costs on Australia but, the efforts of trade diplomacy aside, Australia has to adjust to the world as it is." Keating *Budget Speech 1986-87*, p. 37.

182 Higgott, "The Politics of Australia's International Economic Relations." See also Robert Putnam, "Diplomacy and Domestic Politics: the Logic of Two-Level Games," *International Organization*, 42(3), Summer, 1988.

183 John Ravenhill, "Australia and the Global Economy" in Stephen Bell and Brian Head (eds), *State, Economy and Public Policy in Australia*, Melbourne, Oxford University Press, 1994, p. 87.

Australia's international efforts to secure free trade depended, as Hawke put it, "on our general willingness to practise at home what we preach abroad."[184]

The Uruguay Round negotiations revealed why agriculture had been left out of previous trade rounds. Over seven years of arduous and tedious deliberation - the GATT had been parodied as the General Agreement to Talk and Talk - the negotiations went through multiple crises before ending with a fairly minimal programme of agricultural reform, although tariff liberalisation in the areas of services and manufacturing was more extensive. Despite the compromised outcome and the tentative nature of many of the agricultural reforms and commitments, policy-makers and liberal commentators enthused about a "GATT bonanza."[185] Keating maintained that it would be 'worth' $400 million for Australia's manufactured exports and would create 50,000 jobs. The outcome, he argued, "vindicated" the Government's policy shift in the 1980s: "It is far and away the most spectacular outcome from a multilateral trading round that we have ever had."[186] It became clear quite quickly, however, that the gains in agriculture were going to be less extensive than had been thought. Rather than diminishing, Australian trade disputes with the US and Europe continued with monotonous regularity.[187] More realistic than many of his colleagues, Trade Minister, Bob McMullan, insisted that Australia needed to maintain diplomatic efforts to ensure lower agricultural protectionism:

> There is a temptation to be complacent and to believe that 'agriculture has been fixed' and that it is time to address new issues - nothing could be further from the truth. . . Already there are signs that some countries may not be respecting the spirit of their Uruguay Round obligations.[188]

In a 1999 report, the Australian Bureau of Agricultural Economics argued that some areas of agricultural were more protected than they were before the culmination of the Uruguay Round.[189]

Another important aspect of the deal was the move to restrict the scope of national industry policies through the General Agreement on Trade in Services, the Agreement on Trade-Related Aspects of Intellectual Property Rights, the Agreement on Trade-Related Investment Measures, the Agreement on Subsidies and Countervailing

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184 Hawke, Keating and Button, *Building a Competitive Australia*, p. 1.9.
185 See for example Peter Gill and Tom Burton, "Australia Set for GATT Bonanza," *Australian Financial Review*, 16 December, 1993, pp. a & b.
186 Keating, cited in Tim Stevens, "GATT Promises 50,000 Jobs," *Australian*, 16 December, 1993, pp. 1 & 8.
187 See for example Tim Stevens and Scott Coomber, "Trade War: Ties With US Under Review," *Australian*, 4-5 February, 1995, pp. 1 & 2.
188 Tim Stevens, "McMullan Warns of GATT Breaches," *Australian*, 27-28 May, 1995, p. 4.
189 Brendan Pearson, "Trade Barriers Worse Than Before: ABARE," *Australian Financial Review*, 26 February, 1999, p. 12.

Measures, and, finally, the Plurilateral Agreement on Government Procurement.[190] For some commentators, these limits on domestic policy discretion were a cause for celebration, whilst for others, they were a price worth paying.[191] McMullan argued that, although control over domestic economic management had been eroded by globalisation, the shift to international governance structures was unavoidable:

> The time is gone when we can all stay at home wailing about Australia's involvement in international treaties. . . We have got to get in as actively as we can to get the best outcome in those international negotiations for Australia. . . It is too late to wish that somehow or other this development of a treaty network, and its impact upon Australia's economy and society would go away - that possibility is as gone as old-fashioned protectionism and it reflects the same thinking.[192]

The argument was that globalisation was occurring regardless of what Australia did and it was necessary, if Australia's interests were to be considered, to be an active and willing participant in the process. Overall, however, the Government was selective in its interpretation of what globalisation was forcing on Australia in terms of its commitment to international economic liberalism. The Government resisted US pressure to abandon the foreign investment screening process and was generally equivocal about WTO, OECD and APEC moves to extend liberalisation to investment issues.[193] This duplicity indicates the real political difficulty with increasing liberalisation, and continuing uncertainty about the benefits, both political and economic, of further removing policy discretion.

Alongside the formation of the Cairns Group, the most important trade initiative during the Labor years was the development of the Asia Pacific Economic Cooperation (APEC) forum. Although there is dispute over its origins, Hawke is generally credited with the idea in a speech in Seoul, Korea.[194] At the first APEC meeting nine months later, Hawke stressed a message that he had long been selling:

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190 World Trade Organization, *Annual Report 1996*, Geneva, 1996, pp. 69-73.

191 John Stone, "Government's Interventionist Policies Have Had Their Day," *Australian Financial Review*, 16 December, 1993, p. 15. See also Peter Gill, "Threat to Assistance Schemes," *Australian Financial Review*, 16 December, 1993, p. b. Later Gill argued "Australia has gained much while losing little with the only potential downside a possible threat to some industry assistance programmes." Peter Gill, "The Good, the Bad and the GATT," *Australian Financial Review*, 12 April, 1994, p. 17.

192 Christine Wallace, "Get Into It - New Rules Needed for World Market," *Australian Financial Review*, 17 May, 1995, p. 14; Michael Dwyer, "New Global Deals Turn Up the Heat," *Australian Financial Review*, 12 May, 1995, p. 14.

193 At an OECD Council meeting in July 1995, negotiations began on the ill-fated Multilateral Agreement on Investment. Labor, generally, supported such liberalisation activities but was at odds with certain OECD members, most particularly the US, over the role of the FIRB in screening foreign investment proposals. Foreign Investment Review Board, *Annual Report 1994-95*, Canberra, AGPS, 1996, p. 7.

194 See Richard McGregor, "How the Japanese Gave Us APEC," *Australian*, 1 April, 1996, pp. 1& 2; Yoichi Funabashi, "The Fight Over APEC," *Australian*, 6-7 January, 1996, p. 17. According to Sheridan, "one senior Australian figure" described the claim as "self-serving Japanese horse-shit." Greg Sheridan, "How Hawke's Idea Took Off," *Australian*, 6-7 January, 1996, p. 17. Notwithstanding this rather amusing dispute, the groundwork for APEC had been laid earlier than

> The meeting will also carry a message - a vital message to my fellow Australians - a message I have repeatedly emphasised for nearly seven years as Prime Minister. The message is that the transformation underway in the Asia-Pacific region is of critical importance to the way we go about life in this country and to the expectations Australians can entertain for the future. With our historical roots in Europe, and our reputation - let me concede it was sometimes a well-earned reputation - for economic and cultural insularity, Australia has not been seen by some in the region as an integral part of the region. Indeed sometimes Australians haven't seen themselves in that light either. But those days are gone - gone forever. Increasingly our domestic attitudes - and certainly at the level of my Government, our domestic and foreign policy-making - recognise the truth that our future is thoroughly interwoven with that of the Asia Pacific region.[195]

After becoming Prime Minister, Keating continued to push Hawke's argument that Australia needed to "enmesh" with Asia.[196] On a trip to Asia in September 1992, Keating unequivocally confirmed Australia's commitment to the region and offered support to Japan in its ongoing trade disputes with the US. In reviewing his trip, Keating argued that he:

> wanted to underline to both Australian and foreign audiences how much the Australian economy has shifted towards an international orientation, especially an Asia-Pacific orientation; how much Australia has already achieved in the region; and how much our future depends on successfully carrying forward this engagement.[197]

For one commentator, Keating's speeches in Asia signalled a shift comparable to Curtin's 1942 speech acknowledging Australia's turn to the US.[198] Keating later argued that Australia "is an integral part of the Asian economy. We supply half of east Asia's raw requirements for steel, energy and coal and much of its requirement for food as well as technology."[199] The most important component of the turn to Asia was the APEC forum which, Keating insisted, was pivotal to Australia's future prosperity.

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this by the Pacific Economic Cooperation Committee. Andrew McIntyre and Nancy Viviani, "APEC Revisited," *Australian Journal of International Affairs*, 46(2), November, 1992.

195 R. J. L. Hawke, "Speech by the Prime Minister: Welcome Dinner for Delegates to the Ministerial Meeting on Asia Pacific Economic Cooperation," Canberra, 5 November, 1989, p. 8.

196 Paul J. Keating, "Speech by the Prime Minister, 'Australia and Asia: Knowing Who We Are', Lecture to the Asia-Australia Institute," Sydney, 7 April, 1992; Paul J. Keating, "Speech by the Prime Minister, 'Globalism and Regionalism: Australia's Trade Policy Agenda for the 90s', Keynote Address to the Australian Chamber of Manufactures' Conference on Asia 2010," Melbourne, 20 July, 1992.

197 Paul J. Keating, "Statement to Parliament by the Prime Minister: Visit to Japan, Singapore and Cambodia," Canberra, 13 October, 1992, p. 1.

198 Greg Sheridan, "Trading Places," *Australian*, 26-27 September, 1992, p. 19. Sheridan argued that: "Paul Keating may have made history in Tokyo. The Prime Minister this week attempted nothing less than a fundamental redirection of Australia's external orientation. Just as, in John Curtin's time, we turned towards the United States and away from Britain, Keating has now tried to turn us towards east Asia, and Japan in particular, and away from the US." In 1995, the Japanese returned the compliment, arguing that Australia was one of the fairest trading nations in the world and the US one of the dirtiest. Peter Hartcher, "Australia 'Among Fairest'," *Australian Financial Review*, 31 March, 1995, p. 24. In 1995 Keating told the Japanese that they should deregulate their economy to end the ongoing trade dispute. Lenore Taylor, "Deregulate to End Car War, Says PM," *Australian*, 27-28 August, 1995, p. 1.

199 Tom Burton, "Destination Asia: Keating Wants More Free Trade Agreements," *Australian Financial Review*, 17 January, 1996, p. 1.

Keating pushed hard to get the leaders of APEC countries to meet in Seattle in November 1993 - a meeting which signalled APEC's arrival as an important international forum.[200]

With the increasing focus on regional trade arrangements, some commentators worried that the world was heading towards an era of exclusionist trade blocs. APEC, however, had been developed on the basis that it would not involve preferential arrangements.[201] Indeed, Hawke had contended in his speech promoting APEC: "I must stress that my support for a more formal vehicle for regional cooperation must not be interpreted as suggesting by code words the creation of a regional trading bloc."[202] He reiterated this point at the first meeting of APEC: "So let it be clear that we do not meet here today with any hidden agenda to create some form of Pacific trading bloc."[203] In 1992, the Government maintained that this was still the case, insisting that regionalism did not mean an abandonment of the multilateral trade agenda. Keating argued that regionalism and multilateralism were "complementary"[204] and that "APEC was a GATT plus option."[205]

In November 1994, in Bogor, Indonesia, the APEC countries agreed to future free trade in the region, with developed countries committing to removing all trade barriers by 2010 and developing countries by 2020. The decision was celebrated with much hyperbole. Some writers compared it to the formation of the European Community and predicted huge gains for the region and Australia.[206] Keating argued that the agreement was:

> an absolute triumph for the Asia-Pacific. It is a triumph for the world trading system and it is a triumph for Australia because we will be a very clear beneficiary. President Suharto's statement may well be seen as the beginning of the Pacific century, and

200 See Laura Tingle, "New Force in World Trade," *Australian*, 22 November, 1993, pp. 1 & 13. The Seattle meeting was also significant for sparking a rift between Australia and Malaysia when Keating called the Malaysian Prime Minister, Mahathir Mohammed, "recalcitrant" for not attending.

201 Ross Garnaut, *Open Regionalism and Trade Liberalization*, Sydney, Allen & Unwin, 1996, ch. 1; Andrew Elek, "APEC - Motives, Objectives and Prospects," *Australian Journal of International Affairs*, 46(2), November, 1992.

202 R. J. L. Hawke, "Challenges for Korea and Australia," (31 January 1989) *Monthly Record*, January, 1989, p. 7.

203 R. J. L. Hawke, "Speech by the Prime Minister: Welcome Dinner for Delegates to the Ministerial Meeting on Asia Pacific Economic Cooperation," Canberra, 5 November, 1989, p. 4.

204 Paul J. Keating, "Globalism and Regionalism," pp. 2-3.

205 Keating, cited in Greg Sheridan, "PM Links Our Future to APEC Success," *Australian*, 25 November, 1993, p. 3.

206 See for example Peter Gill, Greg Earl and Tom Burton, "Asia: The New Economic Power," *Australian Financial Review*, 16 November, 1994, pp. 1 & 10. For a more considered study about the putative benefits of liberalisation through APEC, see Bureau of Industry Economics, *Potential Gains to Australia from APEC: Open Regionalism and the Bogor Declaration*, Occasional Paper 29, Canberra, AGPS, 1995. The study also argued that the Government needed to make further progress with microeconomic reform for the full benefits to be achieved. It also acknowledged the need for further research.

> Australia is set up for it. . . . In Australian terms, it means about $7 billion in extra income each year, about 70,000 new jobs. It means exponential growth in opportunities for young Australians. But I think much of the meaning of it can't be measured. For Australian terms, how do you measure the value of a permanent seat at a table of this size.[207]

Although Keating asserted that "liberalisation benefits us all," the APEC commitments caused immediate worries from many sections of business, in particular the car, textiles, clothing and footwear industries.[208] Other business representatives argued that it meant that the Government had to push harder and faster on issues of microeconomic reform, particularly in the labour market.[209]

The issues of whether APEC should become a preferential trade bloc and whether it should be institutionalised dominated the trade debate throughout 1995.[210] The Government expressed an openness to the possibility of a preferential arrangement if it meant that the liberalisation process was accelerated.[211] Trade Minister, Bob McMullan, argued that:

> the Government's preferred position is to pursue trade liberalisation in the region on a non-discriminatory basis, for two reasons. First, it would strengthen the multilateral trading system . . . Second, as a country which opened up its own economy in the interests of enhanced efficiency and competitiveness, we obviously think this is the course of action which, if applied regionally, would deliver the best results. But we do have to recognise that APEC operates on a consensus basis. Put simply, if hard-headed analysis revealed that a preferential approach within APEC would deliver more long-run economic benefits for Australia and our APEC partners than the available alternatives, why would we not at least be prepared to examine such an option?[212]

The possibility of a preferential trade agreement caused much consternation amongst liberal economists in Australia.[213] Later, McMullan declared that Coalition claims that Labor was actively lobbying for APEC to be turned into a discriminatory trading bloc as "absolute rubbish."[214] Recanting on his earlier equivocation, McMullan stressed that: "Australia will seek to ensure that regional arrangements are compatible with the multilateral system."[215]

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207 Paul Keating, "Triumph for Trade and Co-operation," *Australian*, 17 November, 1994, p. 9.
208 Paul Keating, "Our Nation's Future Lies in Liberalising the Market," *Australian*, 14 November, 1994, p. 3.
209 See for example Catherine Armitage, "APEC Fuels Calls for Industry Reform," *Australian*, 19-20 November, 1994, p. 6.
210 Michael Dwyer, "Push to Turn APEC Into Trade Bloc," *Australian Financial Review*, 19 June, 1995, pp. 1 & 5; Michael Dwyer, "APEC Roadblock," *Australian Financial Review*, 26 September, 1995, pp. 1 & 10.
211 Cameron Stewart, "Cabinet Eases Free Trade Stance," *Australian*, 1 March, 1995, p. 1.
212 Bob McMullan, "Open Mind Vital for Open Trade," *Australian*, 10 March, 1995, p. 27.
213 For an academic discussion of the benefits of so-called 'open regionalism', see David Vines, *Australian Trade Liberalisation, APEC, and the GATT*, Edward Shann Memorial Lecture, 1994.
214 Bob McMullan, "Media Release: Newspaper Report (and Fischer) Wrong on APEC," Canberra, 19 June, 1995.
215 Bob McMullan, "Media Release: 'Winning Markets: Australia's Future in the Global Economy'," Canberra, 21 June, 1995.

As the 1995 leader's meeting in Osaka approached, it became obvious that agricultural trade issues in APEC were facing the same difficulties evident in the wider multilateral negotiations. Japan and South Korea, in particular, maintained that agriculture should be excluded from APEC negotiations. In response, Australian trade officials, backed by McMullan, threatened to "dump APEC."[216] At Osaka, APEC country leaders reconfirmed their commitment to free trade, but the absence of US President, Bill Clinton, because of a US Budget crisis, dampened the euphoria of the previous year's meeting.[217] Despite this, the promises of future riches for Australia from the APEC process kept on coming.[218] In a statement to parliament on his return from Osaka, Keating promised that:

> The long-term benefits of APEC's trade liberalisation and facilitation are enormous. Recent modelling work by the Office of National Assessments and the Industry Commission backs up earlier conclusions and suggests that when the full effects of the Bogor commitments have flowed through, the income of the APEC members will increase by 3.8 per cent or USD 745 billion - more than the current size of the Australian and Korean economies combined. Australians will benefit directly and substantially from this process. The initial results of the most recent modelling shows that Australia's real income will rise by 6.8 per cent or $40 billion when all the effects have flowed through, and that growth of this order can be expected to generate 500,000 new jobs over the course of the liberalisation period.[219]

The benefits of Australia's new trade focus and superior export performance meant, McMullan argued in early 1996, that Australia had "the capacity to grow the economy faster than in previous decades. As a result of this improved export performance, we estimate that the economy can now grow at a full percentage point faster than was previously the case."[220]

Through its support for lower protection and international free trade, the Labor Government aimed to create a more self-reliant business sector in Australia and an economy that was integrated into international financial and production structures. Unshackling economic actors from restrictive regulations and encouraging firms to go global was seen as the best way to create a dynamic economy. Persuasion was fundamental to the Government's efforts to restructure Australian industry and was increasingly backed up by policy measures that added coercive substance to the rhetoric. In the final analysis, free trade was seen unequivocally to be in the national

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216 Michael Dwyer, "Australia Threat to Dump APEC," *Australian Financial Review*, 16 October, 1995, pp. 1 & 4.

217 Michael Gordon, "No Retreat," *Australian*, 20 November, 1995, p. 9; Glen Milne, "Clinton's Absence Saps APEC," *Australian*, 20 November, 1995, p. 9.

218 Michael Gordon and Robert Garran, "APEC Unity Promises $40 bn Boost," *Australian*, 20 November, 1995, p. 1.

219 Paul J. Keating, "Statement by the Prime Minister to the House of Representatives," Canberra, 22 November, 1995, p. 4.

220 Bob McMullan, "Media Release: Trade Performance Raises Economic Speed Limit," Canberra, 14 January, 1996, p. 1.

interest. But in the absence of a free trade world, liberalisation was still seen as a guarantor of increased competitiveness. If protective structures were abandoned industries would either get competitive or go out of business allowing resources to be used in industries whose initial business assumption would be an Australia open to world political economy pressures. Liberalising the Australian economy won kudos for the Government from the financial, mining and agricultural sectors and big business generally, but as competitive pressures increased over the 1980s and early 1990s, business became unhappy with the pace of reform in industrial relations. As industry assistance was wound down, support for business increasingly came through economic liberal reform of the domestic economy. The labour 'market', business argued, could not be quarantined from wider changes to the economy. The Government agreed and pressured its union partner to accept the progressive liberalisation of the industrial relations system as a fundamental part of the policy response to global 'imperatives'. The ACTU accepted the agenda and attempted to mould the reform process to its own interests.

Economic Liberalism Via the Accord

In the early 1980s, many in the union movement began to argue that fundamental economic and industrial relations changes were necessary if Australia was to remain a prosperous country. Traditional ideas about wage-setting - wage increases in line with price increases supplemented by additions for productivity improvements (the so-called 'prices and productivity' approach) - were seen to be too narrowly focused. The wages 'breakout' of 1981 and the ensuing recession, coming on top of the experiences of the 1970s, provided further stimulus to such ideas. The problems of inflation and recession, it was argued, required the development of a more strategic unionism that went beyond a focus on money wages.[221] High levels of inflation pressured policy-makers to shift the focus of macroeconomic policy towards fiscal and monetary contraction and the resulting economic slowdown (or worse) by increasing unemployment, weakened the union movement. Unions were forced to confront the possibility that inflation had undermined its power. This new wider focus of the union leadership was reflected in its commitment to the Accord. Its acceptance of the low inflation growth objective and willingness to compromise short-term objectives was an important aid to Labor's efforts to restructure the economy in the 1980s.[222]

221 Peter Ewer, Winton Higgins, and Anne Stevens, *Unions and the Future of Australian Manufacturing*, Sydney, Allen & Unwin, 1987.

222 Kelly, *The End of Certainty*, ch. 3; INDECS, *State of Play 7*, Sydney, Allen & Unwin, 1992, pp. 47-51; INDECS, *State of Play 8*, p. 52.

In its initial formulation (outlined in chapter 5), the Accord was seen in a myriad of different ways by analysts.[223] For some Left optimists it contained the potential for a new role for the union movement to revitalise Australian industry.[224] Others on the Left saw it as just another co-optation of labour.[225] On the Right, one commentator saw it melodramatically as a form of fascism.[226] Many others argued that it was indicative of a corporatist turn in Australian politics.[227] Although various members of the Government saw it in different ways, the extent to which the Labor leadership saw it as a forerunner of a more comprehensive Left strategy can only be doubted. Keating was not particularly supportive of the Accord during its development, nor in the early days of the Government. Like Hayden, he believed that an incomes policy would be ineffective against inflation. Reflecting on labour issues in 1991, he admitted that at the time: "My solution to real wage overhang was to hit the unions on the head."[228] This viewpoint, however, was to undergo a remarkable transformation as Keating realised its potential to assist the overall aims of economic policy, particularly its role in the fight against inflation.[229] In 1984, after convincing the ACTU to forego wage rises in return for tax cuts, Keating argued:

> The Accord is the centrepiece of the Government's economic strategy. It was the Accord and our relationship with the ACTU, that allowed us last financial year to use a substantial Budget deficit to stimulate the economy, and without fear of rekindling inflationary pressures, pull Australia out of its deep malaise.[230]

The Accord, Hawke argued, was an effective incomes policy that helped, firstly, to restrain wages growth during economic expansion and, secondly, to lock in the benefits of the depreciation of the Australian dollar in 1985 and 1986.[231]

As the economic situation deteriorated over 1985, the Government and the ACTU moved to adapt the Accord to international economic pressures. In response to the

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223 Stilwell, *The Accord ... and Beyond*; Beilharz, *Transforming Labor*; Boris Frankel, *From the Prophets Deserts Come*, Melbourne, Arena, 1992.

224 Winton Higgins and Peter Ewer, "Industry Policy Under the Accord: Reform Versus Traditionalism in Economic Management," *Politics*, 21(1), May, 1986; Australian Council of Trade Unions/Trade Development Council, *Australia Reconstructed*, Canberra, AGPS, 1987. See also Winton Higgins, "Political Unionism and the Corporatist Thesis," *Economic and Industrial Democracy*, 6(3), 1985. For an assessment that 'reform' had finally lost the battle against traditionalism, see Winton Higgins, "Missing the Boat: Labor and Industry in the Eighties" in Galligan, Brian and Gwynneth Singleton (eds) *Business and Government Under Labor*, Melbourne, Longman Cheshire, 1991.

225 Peter Beilharz, "The Left, the Accord and the Future of Socialism," *Thesis Eleven*, 13, 1986.

226 Katherine West, *The Revolution in Australian Politics*, Melbourne, Penguin, 1984.

227 Randal Stewart, "The Politics of the Accord: Does Corporatism Explain It?" *Politics*, 20(1), May, 1985; Rolf Gerritsen, "The Necessity of 'Corporatism': The Case of the Hawke Labor Government," *Politics*, 21(1), May, 1986.

228 Edwards, *Keating*, p. 192.

229 Ibid., pp. 244-245.

230 Paul J. Keating, "Speech to National Press Club," (22 August 1984) *Commonwealth Record*, 20-26 August, 1984, p. 1618.

231 See R. J. L Hawke, "Speech to Company Directors' Association," (25 August, 1986) *Commonwealth Record*, 25-31 August, 1986, p. 1432.

depreciation of the dollar, the Government and the ACTU negotiated Accord Mark II in September 1985. The Accord partners agreed to discount wage rises by up to 2 per cent with the Government agreeing to compensate workers with a tax cut effective from September 1986. Productivity-based wage rises were to be "converted into a claim for extending and improving the superannuation entitlements of Australian workers."[232] This latter agreement caused considerable anguish within business circles in Australia as it was believed that the ACTU was attempting to gain control of investment funds.[233]

To prove to business that the Government had its interests in mind, Keating boasted about the improving profit share: "It is a feature of the success of the accord that it has enabled the profit share in this country to be restored to its historical standard of 15 years ago. . . . At the same time we have seen a very significant fall in real unit labour costs."[234] The Government, Keating insisted, was "in no way hung up about profits."[235] At the same time, however, the Government defended the Accord from those who wanted a more market-based wages system which, Keating maintained, had been a disaster in both 1974 and 1981.[236] He argued that "for a host of historical reasons, our wage fixing system does not lend itself to the operations of the free market."[237] Criticism of the centralised industrial relations system continued to grow. In early 1986, with considerable support from members of the Coalition, the H. R. Nicholls Society was formed. It immediately began a public campaign of opposition to what it pejoratively referred to as the "industrial relations club."[238] In May 1986, the Coalition fully embraced a shift to an enterprise-based 'flexible' industrial relations system, signalling its unequivocal departure from the club.[239] The Business Council of Australia also began to campaign heavily for a shift to enterprise bargaining.[240]

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232 Braham Dabscheck, *Australian Industrial Relations in the 1980s*, Melbourne, Oxford University Press, 1989, p. 99.

233 McEachern, *Business Mates*, pp. 68-72.

234 Paul J. Keating, "Speech to Institute of Directors," (5 September 1985) *Commonwealth Record*, 2-8 September 1985, p. 1533. This was a theme Keating constantly reiterated when speaking to business audiences. See also Paul J. Keating, "Address to the Asia Society and American/Australian Society, New York," 4 October, 1988, pp. 4-5. In 1993, Keating argued that: "Corporate profits before tax and interest over the last decade were much higher than in the 1970s . . . . Wage restraint was a major factor in lifting the corporate profit share to high levels around 17 per cent, after it had fallen to a low of 12.4 per cent in the September quarter 1982." Paul J. Keating, *Investing in the Nation*, 1993, p. 27.

235 Paul J. Keating, "Speech to Euromoney Conference," (3 December 1985) *Commonwealth Record*, 2-8 December, 1985, p. 2238.

236 Paul J. Keating, "Speech to EPAC" (27 September 1985) *Commonwealth Record*, 23-29 September, 1985, p. 1679.

237 Paul J. Keating, "Speech to Banking Summer School," (12 February 1986) *Commonwealth Record*, 10-16 February, 1986, p. 175.

238 H. R Nicholls Society, *Arbitration in Contempt*, 1986.

239 Kelly, *The End of Certainty*, pp. 265-266. The shift in policy increased tensions between the 'liberals' and the 'new right' neo-conservatives in the Liberal Party.

240 See the various editions of the Business Council of Australia, *Bulletin*, for detail.

As the economic difficulties of 1985 grew into the economic crisis of 1986, the modifications of Accord Mark II were deemed inadequate. As Hawke argued in his address to the nation on 11 June 1986:

> We must obtain a lower wage outcome than anticipated when the accord was renegotiated last September. The delay in the present case will, to some extent, produce this result. More is required. . . . We now believe it will be necessary to argue for a further discount in the following case.[241]

Hawke argued that the tax cuts, agreed to in Accord Mark II, should be delayed and that the Conciliation and Arbitration Commission should delay the implementation of the productivity-superannuation trade-off. In the following national wage case, the Commission endorsed the wages component of Accord Mark II, but rejected the productivity claim.[242] It also rejected submissions from the Business Council of Australia and other business organisations for a shift to an enterprise-focused industrial relations system.[243] But the tide was beginning to turn.

In September 1986, a conference involving government, unions and business was held to discuss restrictive work practices. The participants agreed that changes were necessary and that these would be best dealt with "at the plant and enterprise level."[244] Following the conference, the Government signalled the end of wage indexation and a shift to a two-tiered system of wage increases. The first tier involved an across-the-board wage rise and the second tier, to be bargained between unions and companies (generally through employer associations) was tied to an acceptance of changed work practices that promoted efficiency and productivity.[245] In December 1986, after all parties argued for change, wage indexation was brought to an end. And in March the following year, the Commission endorsed the shift to a two-tier system which became known as Accord Mark III. Hawke explained that:

> The new system provides for overall wage restraint while allowing some flexibility at the workplace. In other words the decision addresses Australia's economic difficulties at both the macroeconomic level, where there is need for continued labor cost restraint, and at the microeconomic level, where Australian industry needs to become more competitive and productive.[246]

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241 Hawke, "Address to the Nation on Economic Situation," p. 949. See also Keating, *Budget Speech 1986-87*.

242 Dabscheck, *Australian Industrial Relations in the 1980s*, pp. 100-106. Somewhat confusingly, though rejecting the productivity claim, the Commission accepted the superannuation claim but delayed its consideration.

243 Braham Dabscheck, "The Arbitration System Since 1967" in Stephen Bell and Brian Head (eds), *State, Economy and Public Policy in Australia*, Melbourne, Oxford University Press, 1994, p. 156.

244 Braham Dabscheck, *The Struggle for Australian Industrial Relations*, Melbourne, Oxford University Press, 1995, p. 32.

245 INDECS, *State of Play 7*, p. 53.

246 R. J. L. Hawke, "Speech to Australian Finance Conference," (4 May 1987) *Commonwealth Record*, 4-10 May, 1987, p. 667.

The changes meant that the industrial relations system now combined elements of centralisation and decentralisation.

In late 1987, at a national wage case to consider the first tier wage rise, the Commission justified the deferral of a decision by arguing:

> it is of critical importance that no step be taken now that may handicap Australia's ability to cope with the rapid adjustment in the world economy now taking place. Additional time is needed to allow an assessment to be made of possible adverse effects on the economy.[247]

Ironically, given the Government's constant use of the same argument to justify its policies, the Commission's justification was condemned by the Accord partners. Commenting on the decision, ACTU Secretary, Bill Kelty, threatened that the Commission's role would be downgraded in any new industrial relations system. In early 1988, the ACTU signalled its intention to bypass the Commission, with affiliates directly negotiating with employers for wage rises.[248] In line with the Government's plans, but not necessarily those of the union movement, the difficulties of productivity-based bargaining meant that second tier wage rises were slow to eventuate, resulting in a significant decline in real wages.[249]

After the May Economic Statement of 1988, Keating signalled that the Government was prepared to offer tax cuts in return for further wage moderation. The unions, however, were unimpressed with an offer of tax cuts which would not come into effect for thirteen months. During the National Wage Case in June, the Government pressured the ACTU to lower its wage claims, but the ACTU, unhappy with the Government's response, signalled its intention to hold a national strike in July. In response, the Government negotiated Accord Mark IV and argued for a wage rise at the following National Wage Case. The Commission agreed to a 3 per cent wage rise from September with a flat rate $10 six months later, on condition that unions formally agreed to take part in a review of awards "to give effect to the structural efficiency principle."[250]

Over late 1988 and early 1989, the Government and the ACTU negotiated Accord Mark V. This period saw further conflict within the union movement as Left and Right unions disagreed about award restructuring and the move to make it the dominant method for assessing future wage claims. The booming economy made it difficult for

247 Dabscheck, *The Struggle for Australian Industrial Relations*, p. 53.
248 Ibid., p. 54.
249 INDECS, *State of Play 7*, p. 54.
250 Dabscheck, *The Struggle for Australian Industrial Relations*, pp. 55-56. The structural efficiency principle referred to the removal of restrictive and other work practices that impeded improvements in productivity.

the ACTU to justify wage restraint and in the end they gave ground for fear of losing the support of the wider union movement.[251] Differences were soon patched up, however, and the Government issued an economic statement in April 1989 that included tax cuts and improvements to social security, as well as a commitment to the most "far-reaching overhaul of industrial awards since Federation."[252] Keating stressed that the new pay system "will make Australian industry more productive, competitive and better placed to overcome our balance of payments problem."[253] In response, the Commission agreed to a potential wage rise of 6 per cent in two separate award increases on condition, once again, that the unions give a commitment to improving workplace efficiency. The other important aspect of Accord Mark V, supplementary payments for low income workers, was significantly modified by the Commission, causing considerable anger within the union movement.

In the middle of 1989, the Business Council of Australia (BCA) released a report arguing for a comprehensive shift to enterprise bargaining.[254] The BCA had been arguing for an enterprise-based system since the mid-1980s, but had been initially rebuffed by the Accord partners and the Commission. However, with the shift to a two-tier system, the Accord partners had acknowledged business arguments about the need for greater flexibility and began to see the move to enterprise bargaining as inevitable. In February 1990, ACTU Secretary Bill Kelty argued that the issue:

> is not whether or not there will be enterprise bargaining but what sort of enterprise bargaining, what sort of relationships. There are two options for enterprise bargaining. Mature arrangements between unions and employers looking at productivity, profit sharing, the application of restructuring, the development of better relationships between unions and employers. That is good enterprise bargaining. Then there is enterprise bargaining where you bargain . . . for whatever you can get. That is collective bargaining. Now the ACTU has never supported the view that it is the most desirable way for this country to regulate its industrial affairs by just free collective bargaining.[255]

In the lead up to the March 1990 Federal election, the Accord partners agreed on a new wage-tax-superannuation deal that included a commitment to continued award restructuring and the adoption of enterprise bargaining. The Government agreed to tax cuts operative from 1 January 1991, wage increases of 7 per cent over 1990-1991, with a flat rate increase of $12 six months later, as well as supplementary rate adjustments for low income earners. In addition, there was to be a 3 per cent increase in superannuation, phased in between May 1991 and May 1993. The Government also

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251 INDECS, *State of Play 7*, p. 54.
252 Paul J. Keating, *Economic Statement: April 1989*, Canberra, AGPS, 1989, p. 11.
253 Keating, *Economic Statement: April 1989*, p. 12.
254 Frederick G. Hilmer, *A Better Way of Working*, Business Council of Australia, 1989.
255 Cited in Dabscheck, *The Struggle for Australian Industrial Relations*, p. 62. See also Bill Kelty, "Kelty's Credo," *Australian*, 23-24 November, 1991, p. 31.

refocused the unemployment benefit system towards "actively encouraging employment."[256] Keating stressed that a "moderate wage outcome will help to maintain competitive exports. Income tax cuts will improve living standards and preserve social cohesion while the nation is dealing with the current account."[257] After the election, unions were unhappy with the response of employers to Accord Mark VI. With a touch of irony, Kelty complained that employers were not embracing the possibilities for a more flexible industrial relations system. Business groups and the Opposition countered by arguing that the Accord partners' version of enterprise bargaining did not provide sufficient flexibility.[258]

In November, with inflation much lower than expected, the Accord partners renegotiated Accord Mark VI, increasing the tax cuts in return for further wage moderation.[259] And in late 1990, the Commission began to consider the shift to enterprise bargaining and the creation of new wage fixation principles signalled by Accord Mark VI. Despite all parties agreeing on the shift to enterprise bargaining, the Commission, in handing down its decision in April 1991, argued that the parties lacked the "maturity necessary for the further shift to enterprise bargaining."[260] It also deferred making a decision on superannuation and modified the wage claim. The reaction of the Accord partners was vehement, with Kelty arguing: "it is a sickening decision, but there is no reason for the trade union movement to eat the vomit."[261] Keating, slightly more restrained, stated that:

> I disagree with the decision and I disagree most strongly with the conservatism of the commission that has clung to the pre-eminent role of the national wage case awarding increases and postponed the introduction of a more flexible system of enterprise bargaining.[262]

Despite union efforts to bypass the Commission, the depressed economic conditions made direct bargaining difficult and eventually most unions accepted the Commission's endorsement of a 2.5 per cent wage rise. With regard to superannuation, the Government enacted taxation-backed legislation to bypass the Commission. The legislation provided for minimum employer contributions of 4 per cent for larger companies and 3 per cent for smaller companies, rising to 9 per cent by the later 1990s.[263]

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256 Paul J. Keating, *Economic Statement: February 1990*, Canberra, AGPS, 1990; Dabscheck, *The Struggle for Australian Industrial Relations*, p. 63.
257 Keating, *Economic Statement: February 1990*, p. 3.
258 INDECS, *State of Play 7*, p. 55.
259 This agreement came to be known as Accord Mark VIa.
260 Dabscheck, *The Struggle for Australian Industrial Relations*, pp. 68-71.
261 Ibid., p. 43.
262 Ibid., p. 72.
263 INDECS, *State of Play 7*, p. 56.

Beyond the idea that enterprise bargaining involved pay rises in return for productivity improvements and workplace restructuring, there was little agreement between business groups and the Accord partners. Despite the fact that very little had changed between April and October 1991, the Commission, albeit with continuing reservations, endorsed the move to enterprise bargaining. It warned, however, that: "distribution of all the benefits of productivity growth at the enterprise level would lead to inequity and, ultimately, to a distorted and unsustainable wage structure. Such a situation is compatible with neither a flexible labour market nor industrial peace."[264]

After deposing Hawke, Keating immediately set about distinguishing Labor's industrial relations policies from the Coalition's. The *One Nation* Statement promised tax cuts in July 1994 and January 1996 and proposed new legislation that would require employers to increase superannuation from 3 per cent to 9 per cent by 2000-01. Low inflation and its role in ensuring Australia's 'international competitiveness' continued to be a major focus of wages policy. Keating argued: "The Accord partners have re-affirmed their commitment to work towards wage outcomes consistent with keeping Australia's inflation rate at levels comparable with those of our major trading partners."[265] In July 1992, the Government amended the Industrial Relations Act 1988 to allow parties to negotiate enterprise deals without Commission approval.[266] Despite the Government's policy shift, for Keating:

> The real choice we must make in this country is between continuing a cooperative approach which has brought important, tangible and unquestionable benefits, or forcing employers and their employees into an industrial war from which neither would gain.[267]

In October 1992, the Coalition released *Jobsback!* which signalled the abolition of awards, a focus on individual agreements between workers and employers, a low youth wage, the end of compulsory arbitration and a substantial weakening of the role of the Commission.[268] In reaction, the Accord partners negotiated Accord Mark VII, reconfirming their commitment to a 'more consensual' enterprise bargaining and the maintenance of an important role for awards and the Commission in ensuring a safety net for workers. It also signalled the intention to use the external affairs power of the Commonwealth to implement International Labour Organisation standards Australia-

264 Cited in Dabscheck, *The Struggle for Australian Industrial Relations*, p. 73.
265 Paul J. Keating, *One Nation*, Canberra, AGPS, 1992, p. 44.
266 Dabscheck, *The Struggle for Australian Industrial Relations*, p. 75.
267 Paul J. Keating, "Speech by the Prime Minister to the International Industrial Relations Association - Ninth World Congress: 'A New Charter for Industrial Relations in Australia'," Sydney, 31 August, 1992, p. 7.
268 Liberal Party of Australia and National Party of Australia, *Jobsback!: The Federal Coalition's Industrial Relations Policy*, October, 1992.

wide.[269] Despite Labor's attempt to distance itself from the Coalition's industrial relations policies, there were, however, many similarities.[270]

The similarities rather than the differences between the two parties seemed to be emphasised after the election when Keating signalled that the Government's model for industrial relations placed

> primary emphasis on bargaining at the workplace level within a framework of minimum standards provided by arbitral tribunals. It is a model under which compulsorily arbitrated awards and arbitrated wage increases would be there only as a safety net. [T]here are lots of employees who for one reason or another don't have a union to represent them. We need to make the system more flexible and relevant to our present and future needs.[271]

The speech caused considerable consternation within the union movement, especially his assertion that: "we need to find a way of extending the coverage of agreements from being add-ons of awards, as they sometimes are today, to being full substitutes for awards." Keating also flagged that the Commission's role in the new system would be limited to providing a safety net.[272] Although the comments were well received in business circles, union hostility caused the Government to quickly downplay the remarks and repledge its support for awards.[273] This, in turn, displeased business groups who were unhappy with the pace and extent of labour market liberalisation.[274] Business received support from many senior bureaucrats who argued that the pace of industrial relations change should be accelerated in line with other areas of the economy. Ian McFarlane, Deputy Chairman of the Reserve Bank, argued that:

> The centralised wage-fixing system is fighting a rearguard action and appears to have won some important rounds in the past few months, although the increased internationalisation of the Australian economy is a force that will eventually more than offset any apparent legislative victory. . . . We either have to meet the international tests or close ourselves up like a latter-day Albania.[275]

In the development of new industrial relations laws after the election, tensions between the Accord partners increased, with the main issue of contention being the scope for non-union enterprise deals. Unionists were concerned about the possibilities for enterprise unions (or, as Kelty called them, "scab" unions) to be used to allow non-

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269 Dabscheck, *The Struggle for Australian Industrial Relations*, p. 106.
270 See Shane Green and Steve Dow, "ACTU Moves to Abolish Arbitration," *Australian*, 8 March, 1993, p. 7.
271 Paul J. Keating, "It is Possible We Are Now Within Reach of a New Era of Prosperity (Speech to Institute of Company Directors)," *Australian*, 22 April, 1993, p. 4.
272 Ibid.
273 Dabscheck, *The Struggle for Australian Industrial Relations*, p. 110.
274 See for example the comments of the then Executive Director of the BCA, Paul Barrett, cited in Robert Garran, "Bosses Urge Faster Reform," *Australian*, 25 July 1994, p. 4; Shane Green, "Business Challenges Keating to Buck ACTU," *Australian*, 10 May, 1993, p. 4.
275 Cited in Tony Burchill, "Global Pressure Will End Wage Fixing: Banker," *Sunday Age*, 14 November, 1993, p. 20.

unionised enterprises to make certified agreements in the same way as unionised enterprises.[276] In September, after making it clear that there had to be a role for non-union enterprise deals, the Minister for Industrial Relations, Laurie Brereton, was heartily jeered at the ACTU Congress.

Eventually, the Government worked out a deal to allow non-union companies access to an alternative, tightly controlled enterprise bargaining stream based on the award system. Two types of enterprise deals were allowed - 'certified agreements' between employers and unions and 'enterprise flexibility agreements' between employers and their (non-union) employees. Certified deals had been available in some form for the previous five years, but the non-union deals were new. Non-union deals also had to pass a public interest test that was not applicable to union deals.[277] The Commission still had a considerable role in vetting non-unionised deals and maintaining the safety net. The 'no disadvantage test', which meant that new deals could not disadvantage workers compared to their previous total award package, and the fact that unions had the right to inspect and oppose non-union deals, helped to minimise union opposition. The legislation maintained awards to underpin the new system, weakened the secondary boycott sanctions, strengthened the hand of employees in relation to unfair dismissals and established minimum standards for workers based on International Labour Organisation conventions.[278] In a speech on the Industrial Relations Reform Act, Brereton argued that:

> In going down this path (towards spreading enterprise agreements and co-operative workplace change) we do so against the background of the lowest number of industrial disputes since 1942, an inflation rate around 2 per cent (which has not been achieved for a prolonged period since the 1960s), the lowest interest rates for about 20 years and a profit share which remains high by historical standards. The Government's industrial relations policies, particularly the Accord, have contributed greatly to this conducive macroeconomic environment for business. From March 30 that environment will be matched by complementary legislation, legislation that will provide business with ample opportunities to make the workplace changes demanded by international markets. And because under our Act workers enjoy adequate protection, those changes will be made in an atmosphere devoid of fear.[279]

Despite the legislation being seen by business and many commentators as unequivocally pro-labour, tensions between the Accord partners continued.[280] Business

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276 See for example Shane Green, "ACTU to Demand Unions Keep Rights to Workplace Deals," *Australian*, 7 May, 1993, p. 2; Peter Wilson, "Divorce, Labor Style," *Australian*, 21-22 August, 1993, p. 21; Peter Wilson, "Bill Kelty and Laurie Brereton: Having Their Cake and Eating It Too," *Australian*, 3 November, 1993, p. 31.

277 Peter Wilson, "Brereton Grabs IR Powers," *Australian*, 7 October, 1993, p. 1.

278 Peter Wilson, "Labor's Industrial Reward," *Australian*, 26-27 March, 1994, p. 23; Steve Burrell, "IR: The New Order," *Australian Financial Review*, 29 March, 1994, pp. 13-16; Peter Wilson and George Megalogenis, "Brereton's Enterprise Era," *Australian*, 30 March, 1994, pp. 1 & 5.

279 Laurie Brereton, "Workplace Change Without the Fear," *Australian*, 30 March, 1994, p. 5.

280 See for example Ewin Hannan, "ACTU Lashes Keating Move to Slash Awards," *Australian*, 2 August 1994, p. 1.

also complained bitterly about the Government's new industrial relations laws, especially about the scope for non-union enterprise bargaining deals and the unfair dismissal laws.[281] Such vigorous opposition led to a modification of some aspects of the new laws and, on 30 May 1994, the Government eased the unfair dismissal provision, softening the burden of proof on employers and restricting payouts to $30,000.[282] In June 1995, the Government backed down once again on the unfair dismissal laws. The changes, according to Brereton, aimed to make the legislation "simpler, more effective and less legalistic." They also aimed to appease business complaints and lessen the potency of industrial relations as an election issue.[283] At this time, the Government and the ACTU negotiated Accord Mark VIII, making a commitment to create 600,000 jobs in the next term of office, provide significant pay rises for the low paid and maintain the inflation rate between 2 and 3 per cent.[284]

In the 1996 election campaign, Liberal leader, John Howard, argued that a Coalition Government would increase the choices available for workers whilst protecting wages and conditions. As in 1993, Labor attempted to make industrial relations an electoral winner by arguing that the Liberals' softer line could not be believed. But in 1996, there was no *Jobsback!* manifesto to provide Labor with a comprehensive target. Indeed it was the ALP and the ACTU that provided a target after ACTU Secretary, Bill Kelty, threatened industrial war if the Coalition won Government.[285] The problem for the Government was that the Liberals' assurances on awards and gradual rather than radical change, in the context of the Accord partners' comprehensive shift to enterprise bargaining, lessened distinctions between Labor and the Coalition, reducing the impact of industrial relations as an election issue.

Throughout most of Labor's term of office, industrial relations was seen to be an important exception to the Government's globalisation project. The Accord meant that industrial relations changes could not be conducted in the same way as financial

281 See for example Ewin Hannan, "Employers Take IR Battle to ILO," *Australian*, 26 May, 1994, p. 1; Ewin Hannan, "Employers Step Up Call for IR Reform," *Australian*, 3 October, 1994, p. 2.

282 George Megalogenis, "A Lesson for Both Sides in Brereton's Backdown," *Australian*, 31 May, 1994, p. 53.

283 Ewin Hannan and Lenore Taylor, "Brereton Bows to Business on Dismissal Laws," *Australian*, 22 June, 1995, pp. 1-2; Mark Davis and Tom Burton, "Unfair Dismissals Backdown," *Australian Financial Review*, 22 June, 1995, pp. 1 & 8.

284 Ewin Hannan, "Pre-Poll Accord to Woo Workers," *Australian*, 23 June, 1995, p. 1.

285 See for example Ian Henderson, Lenore Taylor and Sid Marris, "Crean Backs Wage War Threat: Business Fears for Economy," *Australian*, 23 February, 1996, p. 1, David Shires, "We'll Get On With Unions: Howard," *Australian Financial Review*, 23 February, 1996, p. 11; Mark Davis, "Reith Guarantees Work Conditions," *Australian Financial Review*, 23 February, 1996, p. 11; Lenore Taylor and Sid Marris, "Howard Sees Mileage in Kelty Threat," *Australian*, 24-25 February, 1996, p. 11.

changes. Many economic liberal commentators believed that Labor went about liberalisation in the wrong order, claiming that it should have liberalised the labour market before it liberalised financial and product markets.[286] This argument, however, ignores the importance of political calculation in the process of policy change. The maintenance of office continues to be the most important priority for all governments and required, in the Labor Government's view, the effective management of labour relations. By liberalising the financial sector first, the Government created an important discipline, a discipline that could be used in its negotiations with the ACTU. Labour discipline was more effectively maintained by negotiation than would have been the case with a more liberal regulatory structure.

Whereas in the areas of finance and trade, increased policy discipline came from exposure to global market forces, in the labour market increased discipline came initially from 'contractual' agreement between the ACTU and the Government, albeit moderated by the Industrial Relations Commission. The Government and the ACTU leadership were able to cajole and coerce the wider labour movement into an acceptance of reduced real wages and a re-establishment of the profit share. The Accord may have been unorthodox in terms of other liberal policy changes, but it allowed the Government to increasingly embrace economic liberalism without losing the support of the union movement. Despite the fact that economic liberal policy changes severely impacted upon many rank and file unionists, the ACTU and many others in the union movement, judged that their interests were still best served by the maintenance of Labor in office.

Through its various re-workings, the Accord became a device not only to achieve wage restraint (decreasing business costs and increasing profitability), but a mechanism through which gradual labour market reform could be achieved. The gradual liberalisation of the industrial relations system meant that the anomalous nature of labour regulation had all but disappeared by 1996. Whilst wage indexation and centralisation were seen to be the solution to Australia's economic woes in 1983 - deep recession with high unemployment and inflation - decentralisation through enterprise bargaining was increasingly seen as fundamental for 'success' in the global economy.[287] Matthews argues that, despite the fact that economic pressures for change were substantial, "the form of the changes and their pace were shaped less by economics than by politics."[288] It was economics, however, particularly constructions

286 See for example Kelly, *The End of Certainty: Power*, pp. 502-503.
287 Dabscheck, *The Struggle for Australian Industrial Relations*.
288 Trevor Matthews, "Employers' Associations, Corporatism and the Accord: The Politics of Industrial Relations" in Stephen Bell and Brian Head (eds) *State, Economy and Public Policy in Australia*, Melbourne, Oxford University Press, 1994, p. 195.

of the imperatives of the world economy, that the Government and the ACTU used to shape the politics of industrial relations. The economic events of 1985 and 1986 and the longer-term structural decline of the Australian economy were used to persuade opponents that a gradual embrace with a more economically liberal labour market could not be avoided.

There were many in the labour movement who were vehemently opposed to the shift away from the centralised system and considerable policy conflict took place within both the union movement and the Labor Party, and between the Government and the ACTU over the precise form of industrial relations changes. It was this substantial opposition and tension within the labour movement that made comprehensive persuasive efforts necessary. In industrial relations, as in other areas of policy, the Government's rhetoric of globalisation aimed to convince opponents of policy changes that there were no alternatives to the direction of change. The Government's 1993 legislation attempted to contain unrest in the labour movement by signalling that, although enterprise bargaining was inevitable, it could be framed in such a way as to maintain workers' rights and a pivotal role for unions. Eventually, the wider labour movement was dragged into an acceptance of enterprise bargaining by a combination of persuasion, *fait accompli* and the fear of the Coalition alternative.[289]

The unions continually made concessions to the Government and business and the progress of industrial relations reform during Labor's term of office is a story of the gradual acceptance and adoption of the agenda of the BCA and the Coalition.[290] After his resignation, Treasurer John Dawkins argued that the BCA, rather than the ACTU, was the most important influence on the policy direction of the Government.[291] Such an argument is not surprising, given the overall direction of policy during the 1980s, but downplays the pivotal impact of the unions in influencing the pace and shaping the extent of industrial relations change. Equally, the union leadership's acceptance of the need for improved international competitiveness and for a more outwardly-focused 'productive culture', assisted the Government in the general process of alerting the population to the unavoidability of policy change. This is despite the fact that the union leadership was suspicious of economic liberal change and had a different interpretation about the most appropriate mix of policies to restructure the economy.[292] The close

289 See Liberal Party of Australia, "End of an Era of Compulsory Arbitration," *Australian*, 21 October, 1993, p. 4. See also Martin Ferguson, "Medieval Nightmare Ahead, Says Ferguson," *Australian*, 21 October, 1993, p. 4.

290 Pamela Williams, "Oh the IRony of it: Howard's Way Was Right," *Australian Financial Review*, 6 October, 1994, pp. 1 & 10.

291 Pamela Williams and Stephen Ellis, "Dawkins Kisses and Tells on BCA," *Australian Financial Review*, 15 July, 1994, pp. 1 & 8. For the ACTU's reaction see "Ferguson Hits Dawkins on BCA," *Australian*, 16-17 July, 1994, p. 3.

292 See for example ACTU/TDC, *Australia Reconstructed.*

relationship between the two arms of the labour movement meant that the Government had opportunities to make the ACTU leadership aware of ongoing economic problems.[293] Rather than securing the interventionist industry policy framework preferred by the union movement and many members of the Party, the Accord was used to gradually break down the protectionist policy structure.

Conclusion

The above analysis of crucial changes to economic policy shows the comprehensive nature of the shift to an economic liberal policy structure between 1983 and 1996. Whilst the constraints of the world political economy were substantial, the Labor Government met these pressures within a framework that gave preference to economic liberal solutions. The pivotal decision to liberalise finance, whilst argued to be an inevitable response to the growth of global finance, was still a policy choice that gave preference to a market-based regulatory structure. The response to the economic crisis of 1986 was also shaped by the economic liberal predilection. Although, once again international pressures for adjustment were intense, the form of adjustment was not mandated. Alternative responses were possible, but the Government chose to meet the crisis with fiscal retrenchment and further liberalisation. The continuing dilemma of the current account deficit and its underlying cause - structural inadequacies in the Australian economy - were met within a framework that discounted direct efforts to enhance the export-focus of Australian industry and gave precedence to a macroeconomic restriction that bludgeoned the economy into recession. The comprehensive reduction of industry protection and the eschewal of interventionism were not forced in any direct way by globalisation, but by policy choices based on the view that the improved productivity of Australian industry would be best served by an economic liberal policy structure. The gradual, but eventually comprehensive, changes to the regulation of industrial relations were argued to be a necessary adaptation to increased global competitive pressures.

In each area of policy the Government utilised a rhetoric of globalisation to educate Australians about the need for economic liberal policy change. Together, persuasion about the imperatives for economic liberal change and the coercion of the policy changes themselves, acted to change both the regulatory structure governing the Australian economy and political and economic expectations about the role of the state.

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293 The Secretary of the Australian Council of Trade Unions, Bill Kelty, argued in the early 1990s that the Accord made the union movement come to grips with government very early on. See ABC Television, *Labor in Power*, 1993.

In the next chapter, the significance of governmental persuasion - the rhetoric of globalisation and efforts to educate the public - are considered alongside an analysis of the coercive effects of the policy changes that reshaped the relationship between Australia and the world political economy.

Chapter Seven

The Politics of Persuasion and Coercion

Introduction

> This process of modernisation, of adaptation to the changing world economy is not something that has some future cut-off point. It must be a continuing process. There is no point at which we can say, reform is finished - because there is no point at which the world will stop changing.[1]

> There has been a revolution in the national attitudes to our existing national arrangements. There has been a new acceptance of the need for change - to adapt to new world realities. Australians are dissatisfied with the mediocrity of our economic performance in the post-war years.[2]

In a National Press Club Speech in the lead up to the 1996 election, Paul Keating argued that Australians did not want another salesman as their Prime Minister. The irony was overwhelming. Here was one of Australia's greatest-ever political salesmen, responsible for selling the Government's enormous policy changes of the 1980s and 1990s, suggesting that an ability to sell policy was neither necessary nor desirable. Nothing could be further from the truth. The ability to sell changes - to persuade - is integral to the making of policy, especially during a period of economic turmoil and restructuring. As the previous chapter revealed, the belief that financial liberalisation, free trade, and market forces generally would effectively restructure the Australian economy was a fundamental part of the Labor Government's economic strategy. Management of the economy, however, was only one of the tasks faced by the Government. Just as important was the maintenance of an electoral coalition sufficient to ensure re-election. Whilst effective economic management was an integral part of maintaining electoral support, policy changes deemed essential for continuing growth had negative consequences for large sections of the population, especially for Labor's traditional electoral constituencies. Political persuasion was an ongoing necessity because periodically the Government had to face the electorate and convince it that the Liberal-National Coalition did not provide a more attractive option.

Efforts to sell policy change involved both preparation and justification - readying Australians for the sacrifices that were deemed necessary to cope with economic crisis and explaining why difficult policy decisions had to be made. Pivotal to maintaining

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1 Bob Hawke, *Building a Competitive Australia*, Canberra, AGPS, 12 March, 1991, p. 1.1.
2 Paul Keating in a lecture delivered on 14 November, 1984, cited in Paul Kelly, *The End of Certainty*, Second Edition, Sydney, Allen & Unwin, 1994, p. 92.

office and providing support for policy change were Government and wider state efforts to use the 'imperatives' of the world economy to sell economic liberalism to an often sceptical and concerned public. The Government aimed to restrict the electoral fall-out from the process of restructuring by convincing Australians that the world economy was forcing economic liberal policy change. Fears and insecurities about political and economic change, and the susceptibility of a considerable portion of the electorate to the appeal of protectionism needed to be overcome or marginalised. Proponents of change painted alternatives to the broad strategy of economic liberalism as sentimental, vestigial and, most importantly, unviable. With assistance from a loose coalition of supporters of globalisation and economic liberalism, policy-makers increasingly sold the message that there was a distinct limit to what the political process could achieve. Increasing resort to the market mechanism was argued to be both integral to the reinvigoration of economic growth and, in the longer-term, unavoidable.

Stressing the fundamental importance of the Government's persuasive efforts or asserting that globalisation was constructed as a political strategy is not to argue that the globalisation pressures outlined by policy-makers were necessarily fallacious or an outright attempt to deceive the population. Economic crises and structural economic problems made policy changes difficult to avoid and, although the form of these policy changes was not pre-ordained, substantial pressures existed to liberalise economic processes. There is nothing particularly unusual about a government attempting to sell its policies, especially when it is under economic and political pressure; nor is it out of the ordinary for a government, when it believes that fundamental changes are necessary, to prepare those who will be affected for hardship and sacrifices. The attempt to persuade Australians about global imperatives could be seen as simply doing what was necessary if globalisation did, indeed, lead definitively and unproblematically to an increasing embrace with economic liberalism. But given Australia's predilection for protectionist policy responses, the issue was less whether the liberalising direction of policy was necessary or correct and more whether the Government and other supporters of economic liberalism would be able to sell the idea that there was no return to a protectionist past or possibility of an interventionist future. Comprehensive policy change and economic restructuring would require considerable efforts to change public expectations of continuing state protection. The rhetoric of globalisation aimed to establish a new acceptance within the Australian population of continual adjustment to developments in the world political economy.

Globalisation as Persuasion: Changing Expectations

> If we cannot persuade our domestic constituencies to accept change - indeed, if we allow them to isolate and insulate themselves from it and encourage them to resist and retard domestic structural adjustment - we have failed not only them but the rest of the world.[3]

The post-war period in the developed world was an era of sustained growth and expanding public expectations about the role of the state in underpinning continuing improvements in living standards. As chapter three pointed out, states took greater responsibility for economic outcomes and took much of the credit for the successes of the 'mixed economy'. Growing economic malaise in the 1970s, however, severely impeded the momentum of state expansion, reduced policy optimism and led to a reassessment of assertions about appropriate roles and tasks for the state.

Despite its free market rhetoric, the Fraser Government's response to economic difficulties, as chapter four noted, fitted well within the prevailing protectionist policy structure. Contrary to later assertions of policy powerlessness in the face of immutable economic forces, Fraser stressed that governments were unequivocally in charge of economic affairs:

> I do not believe that men and women are governed by inexorable events beyond their control. When political leaders say the present situation cannot be helped, it is part of a world situation, they are expressing the futility of their own leadership when, if they were men of real stature, they would be saying 'We can overcome'.[4]

Although the Fraser Government argued that "life wasn't meant to be easy" and that Australia had to get rid of "big" government and "fight inflation first," it did not attempt to change the long-standing view that the state would continue to protect Australian economic actors during times of economic difficulty. It also encouraged Australians to believe that natural resources would continue to underpin prosperity. This faith in resource abundance, Hawke later argued, led to false and exaggerated hopes and to squandered opportunities.[5]

From its very first days in office, the new Labor Government stressed the impediments to social reform and the need for changing expectations about the role of the state. Hawke's initial framework for the reshaping of attitudes was built around the notion of 'consensus', which alleged that compromise and cooperation between Government, the unions and business was the most effective way to reinvigorate the Australian

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3 R. J. L. Hawke, "Speech at World Economic Forum Symposium," (29 January 1987) *Commonwealth Record*, 26 January-1 February, 1987, p. 86.

4 Malcolm Fraser in January 1975, cited in Paul Kelly, *The Hawke Ascendancy*, Revised Edition, Sydney, Angus & Robertson, 1984, pp. 424-425.

5 R. J. L. Hawke, "Inaugural 'The Light on the Hill' Lecture," (21 September 1985) *Commonwealth Record*, 16-22 September, 1985, p. 1617.

economy. The National Economic Summit Conference was an elaborate exercise in public education. Hawke constructed the Summit as a dramatic and significant new form of governance to see Australia through difficult times. The event was staged in the Chamber of the House of Representatives, was televised live and attracted extensive media coverage. At the Summit Hawke stated that: "There is a recognition that to achieve recovery will require restraint in expectations from all sections of the community except the impoverished."[6] Although the major theme was recovery through reconciliation and consensus, the underlying message was the need for sacrifice. The Summit was a comprehensive effort to educate business, unions and the wider public that a fundamental shift in public policy was necessary. The achievement of growth, Hawke argued:

> will require changes in attitude in all parts of the community, not least in business. But I believe that Australians, realising the huge social and economic costs of the poor recent economic performance, are ready to consider those changes.[7]

Later in 1983, Hawke urged Australians to get used to the fact that the "years" of the fifties, sixties and early seventies were "behind us."[8] As Keating put it:

> the experience of the past ten years has essentially been one in which Australians have had to adjust their expectations in the face of a diminished economic performance. We have had to recognise and give greater attention to the economic limits on programs of reform.[9]

Australia could no longer rely on commodity wealth or resource booms and the ability of government to provide "an ever expanding standard of living," Keating insisted, had been "heavily circumscribed."[10] Constructions of policy constraint and the need for a downward adjustment of expectations was a dominant theme of policy rhetoric during the Hawke and Keating years.

Attitudinal change was a major theme of policy-makers and other supporters of economic liberalism and globalisation. Australians, it was argued, needed to shift their focus to the outside world, particularly Asia, and embrace international economic competition.[11] Although less receptive to economic liberal ideas than other key members of the Government, Industry Minister, John Button, still stressed that it was

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6 R. J. L. Hawke, "National Economic Summit Communique," (14 April 1983) *Commonwealth Record*, 18-24 April 1983, p. 508.
7 R. J. L. Hawke, "Speech to Sydney Chamber of Commerce," (10 November 1983) *Commonwealth Record*, 7-13 November, 1983, p. 1921.
8 R. J. L. Hawke, "John Curtin Memorial Lecture," (28 September 1983), *Commonwealth Record*, 26 September-2 October, 1983, p. 1627.
9 Paul J. Keating, "Inaugural E. G. Whitlam Lecture," (28 October 1983) *Commonwealth Record*, 24-30 October, 1983, p. 1828.
10 Ibid.
11 Paul Keating, *Budget Speech 1988-89* , Canberra, AGPS, 1988, p. 2. See also Hawke, *Building a Competitive Australia*, p. 1.1.

necessary for Australians to embrace a "productive culture." Button pleaded for a shift away from inward-looking views to a focus on competitiveness and exports:

> We need to bring about significant changes in attitudes within Australian industry about a whole range of matters which influence success - quality, design, marketing, delivery and cost control measures - most importantly a positive approach to grasping opportunities. . . . Over and above that there is an even greater need to change community attitudes towards industry to encourage a greater understanding of the importance to Australia's future of developing a productive culture.[12]

The attempt to instil in Australians the need for a productive culture went so far as to include the idea that entrepreneurial values should be taught at school, with Simon Crean, Minister for Employment, Education and Training, proposing that school curricula should be adjusted to meet the needs of industry and competitiveness.[13]

Keating continued to push the need for cultural adaptation in the 1990s:

> We cannot expect to change the direction of our trade and commerce, adapt to the revolutionary changes in the processes of production and the nature of work and to the equally radical changes in the global economy without cultural change.[14]

The constant stress on attitudinal or cultural change intimated that, although the role of government was important in encouraging change and facilitating adjustment, the 'real solution' to the problems thrown up by 'new global economic realities' lay with Australian economic actors and the wider community. As Hawke put it in 1988: "Australia's growing enmeshment with the world economy requires that change becomes increasingly accepted as part of virtually every aspect of our lives."[15] Such exhortation was generally framed in attractive terms, but not always. In 1995, Keating argued ominously that the process of adaptation to the world economy did not have an endpoint: global economic competition was like "a long-distance race - a very long distance race . . . Like the modern marathon it gets faster and faster. But unlike the marathon it has no finish line."[16]

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12 John Button, "Speech to Bureau of Industry Economics," (9 April 1986) *Commonwealth Record*, 14-20 April, 1986, p. 573. See also John Button, "Speech to Science and Industry Forum," (21 March 1984) *Commonwealth Record*, 26 March-1 April, 1984, p. 491; "Speech to Institution of Engineers," (4 March 1985) *Commonwealth Record*, 18-24 March, 1985, pp. 330-331. See also David Stockley and Lois Foster, "The Construction of a New Public Culture: Multiculturalism in an Australian Productive Culture," *Australian and New Zealand Journal of Sociology*, 26(3), November, 1990.

13 Roy Eccleston, "Enterprise School Trims Dole Queues," *Australian*, 2-3 September, 1995, p. 6. See also Wayne Burns, "Hard Task to Leaven Enterprise Without the Correct Culture," *Australian Financial Review*, 25 April, 1995, p. 14.

14 Paul J. Keating, "Address by the Prime Minister, National Press Club, Canberra," 22 July, 1993, p. 3.

15 R. J. L. Hawke, "Speech by the Prime Minister to the Business Council of Australia," Sydney, 11 October, 1988, p. 1.

16 Cited from Keating's National Press Club Speech on 24 August 1995 in Stephen Ellis and David Shires, "Business Gets Bullish," *Australian Financial Review*, 25 August, 1995, pp. 1 & 8.

Constructions of the imperatives of globalisation provided support for the argument that the state should, wherever possible, give way to market processes. The private sector was increasingly argued to be the only legitimate creator of economic growth and praise for the market was accompanied by a downgrading of the role of the public sector. As Keating revealed in the late 1980s:

> the reality is that the public sector could never be the driving force in generating growth and wealth and all that we have done has been predicated on this central thesis. . . . A fundamental principle of our policy is that in the end the market is the best allocator of resources.[17]

Market failures were downplayed because of the Government's direct responsibility for economic liberal policy changes. As chapter six noted, policy failures were reassessed as unfortunate but inevitable outcomes of (global) forces beyond Australia's control. The failure of economic theories such as the 'J-curve' and the 'twin deficits' to deliver promised results was, in the final analysis, ignored because the economic liberal policy changes they supported were seen as either beneficial or inevitable over the longer-term anyway. Although economic liberalism was always sold in the first instance as unequivocally beneficial for Australia, potential or actual negative consequences were covered by assertions that comprehensive policy changes involved transition costs, required a longer time-frame for the benefits to flow through, or had not gone far enough. Keating's eventual doubt about particular economic theories was not matched by doubt about the benefits of liberalisation and globalisation, nor about his ability to read the economy. As he boasted in 1992:

> You need a framework, you need experience, you need judgement. You get clever with age. Things are puzzling and confused; you see it all jumbled up and then one day it's like putting on a pair of glasses they are all suddenly clear and bright and you can see the arrangement, how all the bits fit.[18]

The Government's embrace of economic liberalism involved the reordering of policy priorities. Although unemployment remained an important element in Government rhetoric, there was constant stress on the factors that prevented it being tackled. The most immediate priority was inflation, and success on this front was trumpeted by the Government.[19]

The Labor Government, then, continually made the public aware of the difficulties that policy-makers were facing and argued that economic circumstances required not only sacrifice, but understanding that the state could not be held responsible for economic

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17 Paul J. Keating, "Address to the Asia Society and American/Australian Society, New York," 4 October, 1988, pp. 2-3.

18 Keating, cited in John Edwards, *Keating: The Inside Story*, Melbourne, Penguin, 1996, p. 320.

19 In late 1995, Keating argued that the electorate was beginning to understand that the benefit of low inflation was "more modest but more bountiful economic growth." Michael Gordon, "We've Earned the Right to Another Term: PM," *Australian*, 22 August, 1995, p. 2.

problems when their causes lay in changes in the world political economy. This was, as chapter six outlined, particularly the case with the economic crisis of 1986 which provided opportunities for the Government to push through difficult policy changes. The extent to which the crisis was seen as an opportunity is evident in Keating's unhappiness that Australia's terms of trade - the underlying cause of the crisis - had improved by the late 1980s:

> What was disappointing for me was having just won an election in July 1987 on an austerity mandate, yet almost from the time the election was over, the terms of trade started to lift and we got to the point where we couldn't use the mandate.[20]

Crisis generated a constituency for change and allowed the Government to push through policies that would have been difficult to justify otherwise. Over the longer-term, however, Keating argued that avoiding adjustment was not an option:

> So when people attack the government for running too firm a monetary policy, too firm a demand management policy, they've got to understand that this place is going to get adjusted one way or another. And it'll get adjusted, if later, in a more catastrophic way, or earlier in a more sympathetic way.[21]

The resulting policy-induced recession illustrates the danger of Keating's penchant for austerity and forced adjustment. But the catastrophic result did not diminish his belief in the need to lower expectations about the role of the state: "So much is expected of governments, and they can, in a sense, only do so much."[22] Australians, he warned, needed to "beware of those who pretend they can satisfy everyone's need, who pretend they can be all things to all people."[23] By the mid-1990s, after considerable state retrenchment and constant efforts to lower expectations, it seemed to be an electoral virtue to not promise too much.[24] The aim was to restore faith in government by lowering expectations. The concerns of economic liberals such as Samuel Brittan about excessive expectations and the economic contradictions of democracy, outlined in chapter three, had, it seemed, been largely addressed through public persuasion and the coercive effects of economic liberal globalisation.

Policy changes in response to crises were justified by notions of a wider 'national interest'. In a capitalist democracy largely reliant on economic growth to achieve

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20 Michael Duffy, "Three More Hard Years - Or Catastrophe (Interview with Paul Keating)," *Independent Monthly*, October, 1990, p. 15.

21 Ibid.

22 Keating, cited after the near loss of the ALP in the 1995 Queensland election in David Shires, "Frustrated Keating Hits Back," *Australian Financial Review*, 27 July, 1995, p. 3.

23 Keating, cited in Michael Gordon, "Keating Launches a New Line in Recovery," *Australian*, 3 August, 1995, pp. 1 & 2.

24 See for example George Megalogenis, "No Big Election Promises: Howard Warns Voters," *Australian*, 17 October, 1995, p. 4; Judy Hughes, "Court Raises Spectre of WA Inc in Poll Launch," *Australian*, 2 December, 1996, p. 2; Lenore Taylor, "Voter's Demand for Security Will Save Labor: Beazley," *Australian*, 28-29 October, 1995, p. 2.

increased employment and higher living standards, connections between business interest and the wider national interest have a 'commonsense' appeal. The Government used this notion to argue that sacrifices to enhance business prospects or to appease financial market actors were necessary to maximise the welfare of the nation as a whole. Constant emphasis on the connection between globalisation, business success and the national interest attempted to persuade the population that more and more issues and interests had to be subordinated to the goal of increasing Australia's international competitiveness. Phrases such as "tough decisions", "restraint with equity," "the recession we had to have," "living beyond our means," and "paying ourselves too much," all suggested that Australians, as one nation, would have to share the burden of sacrifice. But the burden was not shared equally. As Edelman recognises: "The terms 'problem' and 'crisis' are inducements to acquiesce in deprivations. . . . Like 'problems', crises typically rationalize policies that are especially harmful to those who are already disadvantaged."[25] When arguing that wages pressures needed to be kept in control, business people generally did not mean that chief executives were paying themselves too much. When arguing for sacrifice, political and economic elites knew that even in the worst of times they would not suffer. The recession *we* had to have did not mean that all would feel its effects.

Public education about 'new realities,' involved not just policy-makers, but other powerful economic actors and commentators.[26] Business interests in the media, financial and resources sectors, peak business lobbies, and many other business, academic and media commentators actively supported economic liberal policy changes and pressured the Government to increase the pace of change. Economic commentators and business figures pushed for the Government to educate voters about the realities of globalisation and made substantial contributions themselves as to what the new 'realities' required.[27] The Business Council of Australia (BCA) was a significant participant in public debates over the pace of economic liberal change, particularly in the labour market. Through public pronouncements and publications, the BCA aimed to push the Government to maintain the pace of policy reform and to step up its efforts to educate the public that fundamental change was unavoidable. Its attitude is well summed up by this editorial:

> While there is increasing appreciation of our economic circumstances, we are still operating under the traditional culture of entitlement and 'she'll be right'. This ensures that new economic circumstances are met by adjusting policy at the margin, rather than

25 Murray Edelman, *Constructing the Political Spectacle*, Chicago, The University of Chicago Press, 1988, pp. 31-32.

26 See Ian Marsh, *Globalisation and Australian Thinktanks*, Sydney, CEDA, 1991; Leslie Sklair, "Who Are the Globalisers?," *Journal of Australian Political Economy*, 38, 1997.

27 See for example Rowan Callick "Isolationism Threatens the Debate Over Global Trade," *Australian Financial Review*, 29 February, 1996.

> changing our basic framework of policy to meet our long-term needs. Previous notions of the 'industrial realities' or 'political realities' are still influencing Australian policies, when the present challenges require changes to be made. Radical changes in community attitudes require leadership and vision. But, properly handled, there is every reason to expect that the Australian community will co-operate with those who exercise the necessary leadership. Where the conventional wisdom would expect to see lost votes or industrial strife, there is a strong possibility that leadership can deliver acceptance of new approaches and understanding of reduced entitlements. Ordinary Australians are capable of looking to the long-term and, if properly motivated, are capable of a very positive response to the country's economic problems.[28]

Leading business figures also played an important role in educating the public. John Presscott, then managing director of BHP, for example, argued that a "culture of continuous reform" was necessary and that Australians had to restructure their priorities:

> The central metaphor of our era is 'connectedness': those companies - and countries - that turn their linkages into competitive advantages will prosper. Government and the private sector must be partners in this endeavour. . . . If an action obstructs our capacity to export, then the behaviour will have to change.[29]

Paul Kelly, one of the most influential political commentators during the Labor years, argued that what was needed was public education rather than debate; those who saw the truth needed to educate those who did not:

> Labor had to tell the people and the unions that more restraint was essential since Australia was living beyond its means. But Keating faced an acute problem - the Labor Party did not understand the nature of Australia's economic trouble and was reluctant to learn. [30]

Also important in the process of persuasion were state advisory bodies, such as the Bureau of Industry Economics, the Economic Planning Advisory Council and, cspecially, the Industries Assistance Commission (which later became the Industry Commission). The IAC helped in the process of public education by stressing the dangers of protectionism and the benefits of economic liberal reform. Through reports and inquiries, the IAC constructed a dichotomy between those who wanted to avoid change and hence were self-interested, and "the generality of Australians who would benefit from adjustments."[31] After winning the industry policy debate in the 1980s and

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28 Business Council of Australia, "Editorial: The Future at Stake," *Business Council Bulletin*, 25, July, 1986, p. 1.

29 Cited in Rowan Callick, "Why the Lucky Country is Losing It," *Australian Financial Review*, 23 August, 1995, pp. 1 & 4. After the 1996 election, Keating argued that business people needed to do more to help governments educate the public about the benefits of globalisation. Greg Earl, "The Paul Keating View From Jakarta," *Australian Financial Review*, 1 November, 1996, p. 4.

30 Kelly, *The End of Certainty*, p. 209.

31 Industries Assistance Commission, *Annual Report 1984-85*, Canberra, AGPS, 1985, p. 14. The theme of community-wide benefits dominated Commission reports, but in late 1996 the Commission acknowledged that microeconomic reform disproportionately benefited those on higher incomes. Chairman Bill Scales justified this by arguing: "Reforms can encourage economic growth, improve the prospects of the unemployed and generate the wealth to assist the unemployed." Ian Henderson, "Economic Reforms Benefit Higher Incomes," *Australian*, 1 November, 1996, p. 4.

early 1990s, the Industry Commission increasingly argued that the Government needed to liberalise the labour 'market'. In 1994, its Chairman, Bill Scales, advised business to use the threat of moving offshore to achieve industrial relations changes. Liberalisation, Scales noted, had provided business with a coercive tool that should be used to push the pace of reform.[32]

Particular arguments and assertions become increasingly influential when they are taken up by a substantial segment of those speaking in the public arena. Although sections of the electorate may have been sceptical about the Government's pronouncements about global imperatives and the need for fundamental change, when their assertions were backed by business, media and academic opinion, the message became more difficult to resist or refute. As Maddox and Hagan argue:

> While it is not at all clear that everybody does accept the economic and social ground rules on which politics are now conducted, if the claim is made often enough, and by a sufficiently wide range of prominent spokespeople, debate is radically constricted as any views falling outside 'the agenda' are ruled out of order, and anyone expressing them is said to be dangerously out of touch with 'economic reality'.[33]

Comprehensive policy change can only be sustained over the longer-term if a sufficient coalition can be maintained or constructed or if alternative, oppositional coalitions can be marginalised or prevented from forming. A coalition does not need all 'members' to agree on all issues; indeed, it may be sufficient that there is agreement that policy settings need to be changed. This was certainly the case during the Labor years with business groups and the ACTU agreeing that a new global focus was necessary, but disagreeing over the 'form' of openness. Supporters of economic liberal policy changes were not united on either the extent or pace of change, but this was not a problem for the Government. Indeed, part of the reason for Labor's electoral success was its ability to appear more moderate and consensual than its political opponents and those business actors and economic commentators who were demanding more radical changes to economy and society.[34]

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32 Tim Dodd, "Win Reform by Threat, Scales Tells Business," *Australian Financial Review*, 21 April, 1994, pp. 1 & 8.

33 Graham Maddox and Stephanie Hagan "A New Sophistry: The Rhetoric of the New Right," *Politics*, 22(2), November, 1987, p. 29.

34 See for example Wolfgang Kasper, "Advancing into the Twenty-First Century: Visions and Challenges Facing the Downunder Economy," *Australian Economic Review*, 4th Quarter, 1992; Alan Wood, "Change Recognised the Inevitable," *Australian*, 9 December, 1993.

Maintaining Office

> We needed to unshackle the Australian economy, to modernise it and to internationalise it. To do this we needed to break Labor's traditional and residual opposition to free-market economics.[35]

> We've got to keep Australia as a cohesive society. We've got to be determined that we shall be an inclusive place; that everybody is part of the Australian family and there's not just part of the game for the wealthy and well-to-do people, with the middle-income earners doing it hard in the middle and those on low incomes doing it tough or the unemployed.[36]

During the 1980s, there was considerable debate about whether the Hawke Government abandoned the Labor tradition or whether it simply changed the means to achieve traditional Labor aims. Maddox, Battin and Jaensch insisted that the Hawke Government represented a decisive break with traditional Labor practice and Beilharz alleged that Labor "earned its managerial credentials at the cost of emptying out the labour tradition, even while constantly appealing to it."[37] Johnson, while asserting that the Hawke Government represented a definite rightward swing for Labor, contended that it was "wrong to depict it as decisively breaking with Labor traditions," as Labor had never advocated anything other than a "humanised capitalist society."[38] The shift away from Keynesianism made the Government's policy shift appear much greater than was the case and the "real break with Labor's tradition," Johnson insisted, "would have come if the government had responded to the crisis in a left-wing direction, for example by arguing for substantial controls over private investment."[39]

Rather than reject the Party's rhetorical past, the Government endeavoured to redefine policy changes as a retooling process to achieve long-standing Labor aims. Paul Keating emphatically believed that the Government had 'kept the faith':

> I have referred to these major reforms affecting the private sector in order to emphasise their place within an overall Labor philosophy. They do not represent a grafting of conservative thinking onto a Labor administration. Rather, they are all a vital and logical consequence of Labor's mainstream commitment to a viable, growing mixed economy in the service of a decent Australian way of life.[40]

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35 Bob Hawke, *The Hawke Memoirs*, Melbourne, William Heinemann, 1994, p. 252.
36 Keating, cited in Mike Steketee, "Keating's 1000 Days," *Weekend Australian Review*, 17-18 September, 1994, p. 1.
37 Peter Beilharz, *Transforming Labor: Labour Tradition and the Labor Decade in Australia*, Melbourne, Cambridge University Press, p. 4. See also Graham Maddox, *The Hawke Government and Labor Tradition*, Melbourne, Penguin, 1989; Dean Jaensch, *The Hawke-Keating Hijack: The ALP in Transition*, Sydney, Allen & Unwin, 1989; Tim Battin, "A Break From the Past: The Labor Party and the Political Economy of Keynesian Social Democracy," *Australian Journal of Political Science*, 28(2), July, 1993.
38 Carol Johnson, *The Labor Legacy*, Sydney, Allen & Unwin, 1989, pp. 1 & 95. See also the exchange between Johnson and Maddox and Battin in the *Australian Journal of Political Science*, 26(4), 1991.
39 Johnson, *The Labor Legacy*, p. 96.
40 Paul Keating, "Traditions of Labor in Power: Whitlam and Hawke in the Continuum" in *Traditions For Reform in NSW*, Sydney, Pluto Press, 1987, p. 185.

The leadership believed that the Government had not abandoned the Labor tradition and instead had done *whatever was necessary* to revitalise economic growth.[41] Growth, Keating maintained, was the most important element of the Labor tradition and the spring from which all other social goals flowed:

> Growth is crucial to the achievement of a fairer and more equitable society. Growth means that every sector can look forward to rising incomes rather than squabble over income shares; growth increases the capacity of the economy to raise pensions and provide for those in need, and in particular, there is no other way, but through growth, that we can further reduce the principle cause of poverty in our society, unemployment.[42]

Wealth, in other words, had to be created before it could be distributed. The means were not sacrosanct and indeed had to be adapted to changing circumstances to achieve social democratic goals. For example, even though financial liberalisation was anathema to many in the Party, Keating argued that it would generate increased wealth by unlocking sources of investment. In keeping with its view that policy had to yield to business needs for the 'good of the nation', reducing the role of the public sector would lessen the constraints on the private sector's ability to generate the wealth. The economic liberal policy shift, therefore, would provide the wealth required for a more just distribution: those parts of the 'Labor tradition' restricting the private sector had to be replaced in the interests of working people. The Government maintained that the advocates of 'old social democracy' - the Left of the Party - had to abandon their distrust of markets and economic openness. Hawke stressed in 1983 that "where markets are working efficiently they should be left to do their job." Social democrats, he added, "have no reason to deny the capacity of markets to allocate resources efficiently."[43] At the same time, economic liberal policies were effectively attached to a reforming and equity-based agenda.[44] Liberalisation was portrayed as fighting the good fight against establishment business interests which for too long had made easy profits at the expense of working people. In sum, an open, liberalised, market economy, the Government argued, was not inconsistent with an egalitarian society, at least in the longer-term - "over time," as the Accord had suggested in the case of wages.

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41 Both Hawke and Keating defended contentious policy decisions as firmly within the Labor tradition. R. J. L. Hawke, "Inaugural 'The Light on the Hill' Lecture" (21 September 1985) *Commonwealth Record*, 16-22 September, 1985, pp 1616-1619; "Speech to National Press Club" (5 March 1986) *Commonwealth Record*, 3-9 March, 1986, pp 284-287; Paul J. Keating, "Address to Labor Party Function Organised by the Hon. Gerry Hand," 7 September, 1988. See also Hawke, *The Hawke Memoirs*.

42 Paul J. Keating, "Speech to Sydney Journalists Club," (26 November 1984) *Commonwealth Record*, 26 November-2 December, 1984, p. 2511.

43 Hawke, "John Curtin Memorial Lecture," p. 1628.

44 Greg Whitwell, "Economic Ideas and Economic Policy: The Rise of Economic Rationalism in Australia," *Australian Economic History Review*, 33(2), 1993, p. 24.

During the Hawke and Keating years the social democratic 'optimism' of the early Whitlam years gave way to a social democratic 'realism', a social democracy that focused on the constraints of globalisation and the 'failures' of state intervention. An Australia that failed to adjust to the 'realities' of the global economy could not, in Hawke and Keating's view, maintain any sort of social democracy. The increasing use of the term 'social democracy' acted to distance the Party from some of its earlier connections to labourism and socialism, the latter becoming an increasingly unfashionable and pejorative term (except, perhaps, on the Left of the Party).

Although economic liberalism was the pre-eminent component of policy and guided the Government's overall agenda, it is important not to overstate the extent or consistency of their ideological conversion, or the level of agreement between particular ministers: statements about the Government's general policy direction and rhetoric need to take into account the fact that shifts towards economic liberalism were sometimes gradual and incomplete and often skewed by Government description of policy change. A significant factor in Labor's electoral success was its ability to wrap its economic liberal policy direction in a social democratic blanket. The slower pace and more consensual process of industrial relations change was necessary to maintain the support of the unions and blue-collar workers. The Government's initial resistance to privatisation aimed to manage public sector change and avoid creating too many opponents at the same time - the mistake Whitlam had made. Social policies such as Medicare, the family allowance, and continuing support for the social security system (albeit with increased targeting and surveillance) were to compensate, at least partially, for wage restraint, the restructuring process and economic liberal policy changes in other areas. In addition to arguing about global imperatives, therefore, the Government also argued that there was a social democratic way to adapt to globalisation and that those deleteriously affected by changes to policy and the less fortunate would not be left totally at the mercy of market forces.[45]

The importance of continuing Coalition divisions and general political, economic and organisational incompetence in helping Labor to maintain office should not be underestimated. In times of economic difficulties and widespread dissatisfaction with the Government, a more electorally savvy Opposition could have ended Labor's hold on power much earlier than 1996. Especially important was the Liberal's promotion of a more extensive and rapid programme of economic liberal policy change. Although 'traditional' Labor voters may have been dismayed by the Government's policy direction, they were easily persuaded that they would be worse off under the Liberals.

45 See for example Paul J. Keating, *One Nation*, Canberra, AGPS, 1992; "Policy Speech," 1993; "Victory Speech," 1993.

Through the mid-1980s, the vehement rhetoric of the Coalition and of the so-called 'New Right' allowed Labor to hold the centre-ground of the political spectrum. As Head argues:

> The New Right broadside against the Hawke Government had the fortuitous effect of helping to unify Labor at a time when some trade unions and many Labor sympathisers had become disillusioned about the direction of Hawke's government.[46]

With the Liberals further to the Right, dissatisfied Labor voters had few other options apart from voting for the minor parties. An important element of Labor's strategy, then, was to continually highlight differences between itself and the Liberals. In 1985, Hawke vehemently criticised 'Liberal' policies:

> What is rational about destroying the prices and incomes accord, which has underpinned the recovery and will continue to be the instrument for sustained non-inflationary growth for years to come? What is rational about weakening the industrial system and abandoning central wage fixation? What in the name of reason, is the justification for breaking up and selling off the great and efficient national assets, like the Commonwealth Bank, Telecom, TAA, Qantas. The fact is that this recipe for disaster represents the height of irrationality. And it is irrationality of the most dangerous kind, because it is based on a blind and mindless commitment to a narrow, dogmatic and discredited ideology - a reactionary example of the very kind of ideological self imprisonment which Chifley never ceased to warn the Labor Party against.[47]

Although the Government was later to embrace such 'irrational' policies, at this point it was keen to bolster its Labor credentials in the wake of earlier decisions. Many of the differences between the two major parties disappeared as the Government embraced liberal (and Liberal) policies when circumstances were more propitious for the next stage of change. In 1987, for example, Hawke reversed his earlier opposition to privatisation: "Australian holdings that could have and no doubt did make good sense in earlier times, are not necessarily what is appropriate for current circumstances."[48] Equally significant was the gradual but comprehensive shift in industrial relations towards enterprise bargaining. The Liberal Party's continuing shift to the Right allowed the Government to 'steal' its policies and still distinguish itself as offering a more moderate programme. The Liberal's policy rhetoric provided a target for the Government and a focus for the Left of the Party. As Beilharz notes: the Left's attack on the "fascistic Liberals" often belied the fact that it was a *Labor* Government that was enacting economic liberal policies.[49]

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46 Brian Head, "The Labor Government and Economic Rationalism," *Australian Quarterly*, 60, Summer, 1988, p. 473.

47 R. J. L. Hawke, "Inaugural 'The Light on the Hill' Lecture," (21 September 1985) *Commonwealth Record*, 16-22 September, 1985, p. 1618. In the same year, John Dawkins asserted that "nowhere is the New Right's insensitivity more evident that in the half-baked notion of privatisation." John Dawkins, *Canberra Bulletin of Public Administration*, 13(1), 1985, p. 31.

48 Hawke, cited in John Langmore, "Privatisation: Abandoning Public Responsibility," *Current Affairs Bulletin*, March, 1988, p. 13.

49 Beilharz, *Transforming Labor*, p. 182.

In the lead up to the 1993 election, Keating argued that Labor could more equitably manage the transition to globalisation than could the Liberal Party under John Hewson. Given Keating's association with "the recession we had to have," this message would probably have fallen on deaf ears if the Liberals had not foreshadowed a radical economic liberal programme, outlined in comprehensive style and minute detail in *Fightback!* and *Jobsback!*.[50] After an initial dithering attack on the numbers by Hawke, Kerin and Willis, the Government, with Keating newly at the helm, then unleashed a withering attack on the philosophy of the Liberal's policies. The electorate, Keating contended, faced a clear choice between a more individualistic, polarising and radical economic liberalism and a more consensual, 'social democratic' economic liberalism that promised openness and dynamism as well as equity and social concern. While such differences in emphasis were important, the economic liberal message was strengthened by the fact that both Government and Opposition supported variations on a theme. The overriding dominance of the rhetoric of globalisation reinforced the idea that there really was no alternative. Substantial alternatives to the globalisation project remained on the political fringe and in the universities.

Although socio-economic outcomes during the Labor years fell short of previous social democratic aims, the Government maintained that outcomes were better than they would have been if the Liberals had been in office. In relation to the gap between the rich and poor, Keating explicitly made the point:

> Yes, the gap has widened, but nothing like it would have widened. . . . This is now an international country and the wage spectrum reflects that which exists in a lot of other countries . . . but what we have done, unlike the United States, unlike . . . the Thatcher's Britain which John Howard would seek to emulate, or Ronald Reagan's America, we have brought the bottom two income deciles . . . up immeasurably.[51]

In other words, the Government had succeeded where Governments in other countries had failed and had managed the transition to increased economic and social polarisation more fairly. In the 1990s, the Government built its social democratic agenda around the issues of aboriginal land rights (brought on by the High Court's Mabo decision), the republic, the arts and multiculturalism. Through these issues, Keating attempted to provide those disillusioned with the economic agenda with alternative reasons to support the Government. The aim was to marry the economic liberal globalisation

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50 Liberal Party of Australia, *Fightback! Taxation and Expenditure Reform for Jobs and Growth*, Liberal Party of Australia, Melbourne, 1991; Liberal Party of Australia and National Party of Australia, *Jobsback!: The Federal Coalition's Industrial Relations Policy*, October, 1992.

51 Lenore Taylor, "PM Admits Gap Between Rich and Poor has Widened," *Australian*, 6 October, 1995, p. 2. For a sympathetic view of Labor's social policies, see Francis Castles, "Australian Social Policy: Where are We Now?," *Just Policy*, 6, 1996. For one less so, see Lois Bryson, "Transforming Australia's Welfare State," *Just Policy*, 6, 1996.

project with social liberalism, or as Keating called it: "economic liberalisation and social fairness."[52]

Changes in policy and rhetoric over time and the occasional contradictory assertion reveal the importance of politics in determining the pace, extent and shape of change. Throughout its time in Government, Labor played to multiple audiences. Gourevitch contends that the "need to secure support for a policy affects its final content. Majorities have to be built, coalitions constructed, terms of trade among alliance partners worked out, legitimating arguments developed, and so on."[53] While efforts to retain electoral support may have slowed the globalisation project, they also helped the Government to retain office and continue the process of cumulatively comprehensive change.

The moderating role of social democratic coalitions and ideas, however, declined over the duration of Labor's tenure as the scope of market forces expanded and as areas of the economy hitherto quarantined from economic liberal restructuring became the subject of intense public debate and business pressure. In its last term of office, Labor faced the dilemma of how much further it could go in its embrace of globalisation and economic liberalism whilst maintaining a distinctive policy stance. The Government continued to be caught between the need to ameliorate the effects of change and the need to sustain the message that changes were unavoidable. The desire to maintain the momentum of the globalisation project and retain the support of globalising business and finance increasingly restricted the extent to which the Government could embrace policies and rhetoric that would appeal to Labor's traditional working class constituency.[54]

Losing Government

> The essence of good government is not in the listening or in the talking but in the thinking and the doing.[55]

> The chill winds of competition and the warm glow of social inclusion resonate in some areas, but they frighten the hell out of many Australians. Howard's pursuit of a 'comfortable and relaxed' society might provoke derision in the media and among the intelligentsia, but it hits a nerve in the suburbs.[56]

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52 Paul J. Keating, "Speech to National Press Club," Sydney, *ABC Television*, 24 August, 1995.
53 Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization*, 32(4), August, 1978, p. 905.
54 Brian Toohey, "Paul Keating Makes History," *ABC Radio 24 Hours*, July, 1995, p. 42. See also Geoffrey Barker, "Keating's Line Deeply Flawed on the Widening Poverty Gap," *Australian Financial Review*, 14 November, 1994, p. 18.
55 Paul J. Keating, "Speech to National Press Club" Sydney, *ABC Television*, 24 August, 1995.
56 Lindsay Tanner, "How Change Fatigue Lost the Vote for Labor," *Australian*, 7 March, 1996, p. 11.

At various times during the 1980s and 1990s, both Hawke and Keating believed that the Australian community had accepted the 'challenges' of globalisation and the need for a comprehensive restructuring of the Australian economy. After the 1986 crisis, Keating argued that there was "a more realistic understanding about the difficulties we face and about the need for change." There was, he added, a new "sense of realism" among all Australians.[57] Reflecting on the positive reception to the fiscally restrictive May Economic Statement of 1987, Hawke recounts that the comprehensive "education programme" undertaken during the crisis of 1986 "had worked well with both the party and the people."[58] In 1991, despite the severe recession, Keating enthused that the electorate was increasingly receptive to change: "What the past eight years have shown us is that the electorate can be interested in change if the framework can be explained to them."[59] In 1995, responding to assertions that the community was suffering from reform fatigue, Keating maintained that the community, guided by Labor, had come to expect change:

> Now if governments say, 'Look we think we have had enough change, and we don't want to burden you, the public, with more of it', the public would say, 'Well thank you, we will have somebody else'. They want change. So much of what we do these days, as a nation, is we manage change. Australia is now working differently, within different structures, we think differently, we have learned the need for change. And if the last decade means nothing, it means that our capacity for change is very substantial and very great.[60]

Labor's maintenance of office during some difficult economic periods provided some justification for such hopeful assertions. It is difficult, however, to know the extent of popular acceptance given that the electoral alternative up until the 1996 election was an Opposition that offered a more comprehensive and more rapid embrace of economic liberalism.

Although significant sections of the population benefited from and supported economic liberal policies, many did not and continued to be receptive to policies at odds with globalisation and economic liberalism. Polls taken over 1993 by Australian Economic Analysis and Saulwick showed that about three quarters of the voting population continued to support tariff protection.[61] A 1995 study by Clive Bean showed that, whilst considerable support existed for tariff cuts among university graduates and urban professionals, "two out of three people without degrees believe that manufacturing

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57 Paul J. Keating, "Speech to Institute of Chartered Accountants," (4 December 1986) *Commonwealth Record*, 1-7 December, 1986, p. 2325.
58 Hawke, *The Hawke Memoirs*, p. 392.
59 Paul J. Keating, "The Challenge of Public Policy in Australia," *Canberra Bulletin of Public Administration*, 65, July, 1991, p. 19.
60 Paul J. Keating, "The Way Towards a Reshaped Future," *Australian*, 24 February, 1995, p. 9. For a reiteration of this assertion, see Paul J. Keating, "Innovate Australia: Speech to the National Trade and Investment Outlook Conference," Melbourne, 6 December, 1995.
61 Robert Manne, "Trade and Tariff Taboos," *Australian Financial Review*, 28 July, 1994, p. 18.

needs stronger protection against imports."[62] In a survey of public opinion on foreign investment, Goot summarised: "On the most recent evidence, Australians want 'a little' rather than 'a lot' of foreign investment and want the Government to have 'lots of controls'."[63] Such findings indicate that a large section of the population, particularly those who were traditionally part of Labor's electoral constituency, were not convinced by Labor's globalisation project.

The Government, especially Keating, underestimated the extent to which many Australians were wearied by economic reform and continual proselytising by political and economic elites about global 'imperatives' and the need for cultural change. Over late 1995 and early 1996, the Government was alarmed by its low standing in the opinion polls, despite the fact that the 'economic aggregates' suggested that the economy was doing well.[64] Keating's celebration of "16 quarters of economic growth" and his strident assertion that "it doesn't get any better than this" showed his frustration with those who just did not understand that Labor had transformed Australia from being

> a lump of industrial archaeology with an old secondary industry that was completely uncompetitive, which had a managed exchange rate that was massively overvalued, which had a tariff wall that had no international competitiveness whatsoever.[65]

The Government failed to comprehend the economic hardship being faced by sections of the population. Despite continuing evidence of community insecurity and reform fatigue, some of it based on internal Labor polling, the Government remained steadfast in its belief that the electorate would prefer Labor's globalisation project to a *potentially* more vehement Coalition one.[66] Before the election, Deputy Prime Minister, Kim Beazley, argued that the electorate would not believe Howard's argument that the Liberal Party was offering a more consensual policy programme and would stay with Labor for the sake of security.[67]

Whilst the Liberal Party continued to support economic liberalism and globalisation, in contrast to Keating's arrogant style and constant assertion of the 'big picture', Howard

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62 Tom Dusevic, "Urban Professional Minority Supports Open Border Policies," *Australian*, 20 September, 1995, p. 7; Matthew Stevens, "Foreign Investment a Poll Sleeper," Australian, 27-28 January, 1996, pp. 1&2.

63 Murray Goot, "How Much? By Whom? In What? Polled Opinion on Foreign Investment, 1958-1990," *Australian Journal of International Affairs*, 44(3), 1990, p. 248.

64 Ian Henderson, "Labor Seeks Answers on Voteless Recovery," *Australian*, 9 August, 1995, p. 2.

65 David Shires, "Frustrated Keating Hits Back," *Australian Financial Review*, 27 July, 1995, p. 3. In late 1995, Labor spent $150,000 on full page advertisements in Australian newspapers to advertise the fact that Australia had been growing for "16 consecutive quarters." See for example the advertisement in the *Australian*, 1 September, 1995, p. 4. See also Stephen Ellis and David Shires, "With Rates Held, ALP Pitches for Votes," *Australian Financial Review*, 1 September, 1995, p. 3.

66 See for example Stephen Ellis and Steve Burrell, "Labor's Lose-Lose Recovery," *Australian Financial Review*, 11 August, 1995, pp. 1 & 8.

67 Lenore Taylor, "Voter's Demand for Security Will Save Labor: Beazley," *Australian*, 28-29 October, 1995, p. 2.

decided that an alternative 'relaxed and comfortable' rhetoric was more appropriate for an insecure public, weary of constant change. An anodyne approach was especially relevant for the Liberals given that only three years earlier its *Fightback!* manifesto had been rejected by the electorate. The Liberals promised that there would be no radical overhaul of the policy framework and, in particular, Labor's social policies.[68] Instead, Howard argued that he wanted "a renewal and renovation in the symbols and structures of our national institutions."[69] The Liberals also argued against Labor's support for multiculturalism, aboriginal affairs and what it and many other conservative commentators successfully tainted as Labor's 'politically correct' social agenda.[70] Such themes struck a chord with those who did not want to be told that after going through the restructuring of the 1980s and early 1990s that the changes already made were only the beginning of a never-ending process of adjustment - Keating's marathon with no finish line. Their more moderate rhetoric satisfied many of those wanting a change of government and, in particular, the removal of Paul Keating as Prime Minister. The election delivered a landslide victory to the Coalition, with Labor's share of the working class vote almost matched by the Coalition's.[71]

The realisation that not everyone loved constant change seemed only to come to many members of the Government after its comprehensive electoral defeat.[72] Gareth Evans argued:

> What we did not do was persuade enough people that we understood their uncertainty about their and their children's future. Nor did we convey that the old jobs are going throughout the industrialised world - and that change at home is unavoidable and will deliver us all long-term economic security if we manage it properly.[73]

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68 See for example Glen Milne, "Howard Erodes the Case For Change," *Australian*, 16 October, 1995, p. 9; Mike Steketee, "The Real John Howard," *Australian*, 13-14 January, 1996, p. 23; David Shires, "We'll Get On With Unions: Howard," *Australian Financial Review*, 23 February, 1996, p. 11.

69 Howard, cited in Michael Gordon, "Two Bob Each Way on Republic," *Australian*, 14 December, 1995, p. 2. Howard's soothing rhetoric was attacked by Keating who argued that "in trying to be all things to all people, he only succeeds in standing for nothing to anyone." Michael Gordon, "Howard Offers Vision On National Identity," *Australian*, 14 December, 1995, p. 2.

70 See for example David Shires, "Interest Groups Will Not Dictate Policy: Howard," *Australian Financial Review*, 10 July, 1995, p. 7.

71 Ian McAllister and Clive Bean, "Long-term Electoral Trends and the 1996 Election" in Clive Bean, Scott Bennett, Marian Simms and John Warhurst (eds), *The Politics of Retribution: The 1996 Australian Federal Election*, Sydney, Allen & Unwin, 1997. See also Robert Manne, "Shifting Sands of Class Erode Old Loyalties," *Australian*, 21 April, 1997, p. 11.

72 See for example Michael Gordon and Lenore Taylor, "Beazley Pitches for Heartland," *Australian*, 20 March 1996, p. 1; Michael Gordon, "Big Picture Campaign Missed the Mood: Labor Tactician," *Australian*, 22 March 1996, p. 2; Barry Jones, "Why We Lost and What We Can Learn," *Labor Herald*, September 1996.

73 Gareth Evans, "Way Out of Electoral Wilderness for Labor," *Australian*, 15 March, 1996, p. 13. After the election, National Secretary of the ALP, Gary Gray argued that: "We'd taken our product to the market but we forgot to sell it. We also forgot to provide any after sales service. We thought everyone accepted the logic of what we were doing and saw pain as a rite of passage to the future." Michael Gordon, "Big Picture Campaign Missed the Mood: Labor Tactician," *Australian*, 22 March, 1996, p. 2.

While it is evident that Labor failed to understand the extent of insecurity, it is simply incorrect to say that Labor did not convey the message that globalisation was both unavoidable *and* beneficial. Indeed, the Government seemed frightened to countenance the extent of voter insecurity, especially amongst its traditional electoral constituency, because it meant that their persuasive efforts had been less successful than Hawke and Keating had thought. But in terms of the 'bigger picture' of economic liberal globalisation, persuasion was only one half of the globalisation project.

Economic Liberal Coercion

As the outline of economic globalisation in chapter two revealed, pressures from the world political economy would have had a substantial impact on Australia with or without policy change. The breakdown of the Bretton Woods financial order; liberalising decisions in other countries; improvements in the technologies of transportation, communication and information; the search for profits beyond national borders by multinational companies; and the ever-increasing push by investors and speculators to buy and sell currencies, bonds, stocks and an expanding array of financial derivatives - all were occurring regardless of what happened in Australia. Australia was a fairly minor player in a changing world political economy. But, as chapter six pointed out, this does not mean that the way the Australian political economy is regulated is inconsequential. Both external and internal regulations shape the effects of the world political economy and the way globalisation is experienced by different economic actors, groups and individuals in society. Regulation and state institutions shape the pace of change and the distribution of adjustment costs and benefits.

Whilst the rhetoric of globalisation pervaded public debate, provided support for policy change and helped to marginalise alternative policies, it was the economic liberal policy changes themselves that accentuated the effects of the world political economy and coerced changing assessments of the role of the state and the need for continual market adjustment. The shift in policy direction increasingly placed the onus of adjustment onto domestic economic actors and the wider population and was pivotal to the 'education' of Australians about new 'global realities'. By reducing the regulatory barriers that had in the past helped to insulate Australia, economic liberal change made the effects of globalisation more direct and obvious, strengthening claims about global 'imperatives'.

Through the combined effects of globalisation and economic liberalism, Australia was increasingly exposed to the coercion of global finance, investment and trade. Financial liberalisation made the effects of finance more obvious, increasing the scope and speed

of financial market actors to judge economic policy and pressuring the Government to structure policy to avoid adverse financial reactions. The liberalisation of exchange controls meant that capital could more easily flow out of the economy if policies were considered to be unfavourable to business and finance. The huge build-up of foreign debt increased Australia's vulnerability to changing international financial sentiment. The liberalisation of trade increased the competitive pressures of a world trading system still structured by political intervention and oligopoly. Whilst it was the ideal of free trade to which economic liberals referred, it was a world *political* economy to which economic actors and populations had to adjust. The growth of international production strategies, the relaxation of regulations and efforts to attract and retain investment intensified pressures on both economic actors and government.

Increased competition had a number of effects: it pressured business to increase productivity so as to remain profitable in an environment of diminishing state assistance, unions to restrict wage claims and industrial disputation, and governments to lower taxes and costs and to push the pace of microeconomic reform. Each economic liberal policy response reinforced the already substantive constraints of the world political economy and pushed policy-makers to extend reform to other sectors of the economy. Domestic liberalisation worked to enforce the adjustment of those sectors of the economy not directly involved in, or exposed to, trade. Unregulated capital flows and macroeconomic policy rigidity did not help the current account problem and led to the ultimate discipline on the domestic economy - policy-induced recession.

Globalisation, liberalisation, privatisation and the general marketisation of economic relations meant market forces were more important in determining socio-economic outcomes. The marginalisation of notions of economic and social protection, the celebration of continual economic adjustment, and the reinforcement of these ideas through policy changes, encouraged and coerced citizens to think of themselves as economic actors, succeeding and failing on market terms. As Rose argues, the very notion of government has been "restructured according to a particular image of the economic - the market.[74] The increased coercion of market forces unleashed by regulatory change enabled the Government to argue that it was less responsible for economic outcomes. As Keating insisted:

> Just look at the old system, the people who believed in high tariffs, the people who believed in a regulated financial system - the new markets took them out. We didn't take them out - the markets took them out.[75]

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74 Nikolas Rose "The Death of the Social? Refiguring the Territory of Government," *Economy and Society*, 25(3), August, 1996, p. 340.

75 Keating, cited in Christine Wallace, "The Big Picture," *Australian Financial Review Magazine*, December, 1995, p. 14.

In industrial relations, Keating claimed that the shift to enterprise bargaining lessened the Government's responsibility for outcomes: "The Government doesn't take the rap because this is a system where it's all up to the participants."[76] While Keating argued that it was up to businesses to protect their own interests, this was also the case for workers, many of whom were less able to protect their interests in uneven power relationships. The state's role was to provide an appropriate environment that did not impede economic actors in the pursuit of market efficiency. The market was increasingly fostered as the most legitimate mechanism for determining outcomes and, with each economic liberal policy decision, it became a more comprehensive source of governance.

Through economic liberalism, the state and other important societal actors have aimed to limit the role of direct government and to enhance what Miller and Rose call "government at a distance" - the fostering of the self-regulating ability of individuals and populations.[77] Economic liberalism governs through the notion of economic choice, with markets constructed as a new 'democratic' forum for the processing of preferences. Political choice, meanwhile, is marginalised by the pervasiveness of the rhetoric of globalisation and the self-reinforcing nature of the economic liberal policy structure which increases the power of global economic actors to threaten and punish alternative policy programmes. The shift towards economic liberalism has increased market power and has been most advantageous to those groups in society which are best able to take advantage of global opportunities. Globally-focused business, the wealthy, and highly-skilled labour have all benefited from economic liberal globalisation. Increased regulatory 'flexibility' allows greater opportunities to exploit and to shift adjustment pressures onto those with less market power (unskilled workers, the unemployed and the poor). A reduced public sector and a decline in the state's redistributive role means that economic growth and improvements in employment and wealth distribution are more reliant on the decisions of private economic actors.

Although the idea of political choice has been challenged and state functions have changed, the role of the state has not been diminished. The process of economic and political restructuring was very much a state-led project with a commonality of purpose between bureaucratic and political policy-makers that helped to ensure that the scope of policy change was extensive. As Polanyi points out, economic liberalism requires a strong state to enforce the market against demands for social protection.[78] With an

76 Keating, cited in Christine Wallace, "Time to Get a Handle on How Collective Bargaining Works," *Australian Financial Review*, 21 December, 1994, p. 20.
77 Peter Miller and Nikolas Rose, "Governing Economic Life," *Economy and Society*, February, 1990.
78 Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, Boston, Beacon Press, 1957[1944].

economic liberal policy structure, the state must continue to "protect" the market from "spontaneous" demands for political action to shape or replace market outcomes. Efforts by the Labor Government to ameliorate the worst of market outcomes helped to manage opposition to globalisation. But, as the economic liberal transformation proceeded, policy-makers insisted that the room for state initiative was increasingly circumscribed, most particularly by the possibility of negative financial reactions and the requirements of global economic competition.

As argued in chapter three, policy changes are best seen as a shift in the mode of regulation - as a shift to a different system of governance - which aims to alter the way individuals, economic actors, and the state itself, understand political economic 'realities', calculate their interests and perceive the possibilities of political action. The aim of the globalisation project was not just to change a whole range of protective regulations but to change the way that society is governed and, indeed, the way that the individuals that make up Australian society govern themselves. Policy-makers aimed to persuade Australians that they needed to adjust to the world political economy and then through economic liberal policies they ensured that such adjustments would occur. Policy ideas, once implemented, become structures. Whilst persuasion continues to be necessary once economic liberal policy decisions have been enacted, the policy shift alters the structural context within which future economic policy choices must be made and hence coerces changing perceptions of reality and the realms of possibility.

New Forms of Autonomy and Capacity

> The more governments attempt to do, the more likely they are to be held liable for poor performance, or for policy changes that impose losses.[79]

Some commentators see the intensification of globalisation and the shift to economic liberal governance as involving "a limitation on the state's capacity to effect desired national outcomes," meaning that policy-makers are incapable of delivering "systematic outcomes."[80] The decline in the redistributive function of the state has been central to many arguments about the effectiveness of state action. But, as chapter three argued, autonomy and capacity are best seen as relative concepts that change over time. What may be indicative of capacity in one era or set of circumstances may not be in another

79 R. Kent Weaver, "The Politics of Blame Avoidance," *Journal of Public Policy*, 6(4), 1986, p. 390.

80 Dick Bryan and Michael Rafferty, *The Global Economy in Australia: Global Integration and National Economic Policy*, Sydney, Allen & Unwin, 1999, p. xiv. Although Bryan and Rafferty are critical of social democratic arguments about national political capacity, their own conception continues to define capacity in social democratic terms; that is to say, capacity equals the ability to deliver egalitarian policies. See also Stephen Bell, *Ungoverning the Economy: The Political Economy of Australian Economic Policy*, Melbourne, Oxford University Press, 1997.

period or place. As political and economic change occurs at both the domestic and international levels, state priorities and perceptions of interests and possibilities change as well. Whilst the protectionist policy structure may once have signalled state autonomy from the international domain, it could not be argued that it was indicative of autonomy from particular domestic economic interests. With the increase in Australia's structural economic problems, protectionism was increasingly seen by policy-makers as preventing necessary economic (and political) adjustment. Given this assessment, the inability of the state to move away from protectionism would have been indicative of a lack of autonomy from entrenched domestic interests and an inability to adapt to changing domestic and international circumstances.

The result of liberalising finance was that policy autonomy from international financial markets declined, but the maintenance of the existing protectionist regulatory system would not have been indicative of state autonomy, because policy-makers (Treasury Secretary, John Stone, aside), did not believe that the system was working effectively and wanted change. Whilst liberalisation caused many difficulties for policy-makers during the 1980s, it did ease the state's (the Reserve Bank's and Treasury's) regulatory responsibilities. Financial pressures for fiscal discipline and lower inflation may have been seen as a problem on the Left of the Party and in the union movement, but for economic policy-makers they were a welcome ally to force policy settings that were seen as necessary to increase Australia's 'international competitiveness'. Indeed, as the previous chapter noted, the increasing discipline of financial liberalisation on policy was frequently cited by Keating as one of its major benefits.[81] Financial market pressures were effectively used by the Government to push through liberal policy changes in other areas of the economy.

Increased international pressures were undoubtedly important, but the Government often *chose* to restrict its policy options. An interventionist industry policy was ignored, for example, not because globalisation meant it was impossible to enact, but because the Government believed that economic liberal policy decisions in finance would effectively restructure Australian industry (the 'J-curve' argument), the current account problem would be solved if the public sector's call on savings was reduced (the 'twin deficits' argument), industry policy was simply neo-protection (the 'attitudinal change' argument), the Government's policy stance was based on freer trade and an interventionist industry policy would have contradicted this stance (the 'free trade credentials' argument) or industry policy simply did not work (the 'picking losers' argument). The Government's aim was to change business and wider societal

81 See for example Paul J. Keating, "Speech to Euromoney Conference," (3 December 1985) *Commonwealth Record*, 2-8 December, 1985, p. 2239; Edwards, *Keating*, pp. 229-230.

expectations of a continuing interventionist role for the state in industry development. Policy-makers expended considerable effort persuading business and workers that there was no future in protection and then, by lowering tariffs, coerced them into accepting the 'new reality'. The Government's strategy was to deal with globalisation and structural economic problems by accentuating the impact of the world political economy on the domestic political economy: the best way to deal with globalisation, policy-makers believed, was by bringing it on further. Whilst such a strategy was not necessarily the best way to 'effectively' restructure Australian industry, it did indicate that policy-makers had the capacity to dismantle protection and the autonomy to resist pressures to either maintain protection or develop a 'strategic' industry policy alternative, the policies preferred by sections of its traditional working class and public sector constituencies, the Party, the unions, and manufacturing interests.

Globalisation and the development of an economic liberal policy structure acted to constrain economic policy discretion, but declining policy autonomy from the world political economy and market forces was not an unfortunate by-product of the globalisation project - it was the very aim of policy. It was the aim of policy to increase the scope of market regulation by liberalising economic processes and introducing competition to previously protected areas of the economy. It was the aim of policy to liberalise labour relations so that the state would have to interfere less in bargaining between employers and employees and have less responsibility for wage outcomes. And it was also the aim of policy to privilege a more 'economic' or 'market' set of values and regulations in the determination of individual and societal choices.

On these terms, the globalisation project can be considered a success. By the time of Labor's defeat in 1996, finance, investment and trade had been liberalised, significant state enterprises had been privatised or corporatised, labour relations had been decentralised without industrial confrontation and unrest, competition reforms had been extended to hitherto protected sectors, inflation had been lowered, the profit share had been restored to previous highs, and social welfare had been streamlined. The state, led by a reform-minded Labor Government, was the pivotal actor in the establishment of a new policy orthodoxy in Australia, effectively 'managing' opposition and forging a new path through the often competing pressures of the domestic and international domains.

Also important has been the establishment of a culture of diminished expectations about the possibilities of political action. The belief that attempting to alter inequitable market outcomes is not possible in a 'globalised' economy or that it will actually be counterproductive helps to ensure that such outcomes do not eventuate. The fostering of the view that economic outcomes were, to a greater extent than ever before, the result

of global market forces over which governments had little control, changed the way issues of redistribution were considered: redistribution could only be a marginal phenomenon in an economic liberal, globalised political economy. In a period of economic turmoil and fundamental policy change, issues of economic management are extremely likely to dominate perceptions of governments. But what constitutes 'successful' economic management has profoundly changed. Over the post-war period and until the 1970s, the idea that a government could be considered as competent and have a chance for re-election with unemployment over 10 per cent would have been seen as ludicrous. Even small increases in unemployment were anathema to good government. A supposed truism of electoral politics was that the fortunes of governments were intricately tied up with the fortunes of the economy. By the end of Labor's hold on government, high unemployment and increased social polarisation did not attract widespread concern, nor were such issues addressed by the policy programmes of the two major parties. The economy can now be assessed as being 'in good health' and governments can be considered as 'good economic managers' despite social malaise.

If, however, we were to measure state capacity by an alternative set of criteria, our assessment would be significantly different. By 1996, despite over four years of growth, unemployment and under-employment remained high, poverty had grown and wealth distribution had become more unequal. In terms of Australia's structural economic problems, whilst there had been some important changes, the level of improvement remained inadequate. As detailed in chapter two, despite the removal of protective trade barriers and some minor improvements in both the level and structure of Australian trade in the late 1980s and 1990s, Australia is still a 'price-taker' in international markets for almost all goods traded. Enduring reliance on commodity exports means that Australia continues to pay higher average prices for its imports than it receives for its exports. Imports continue to expand, especially in the area of complex manufactures, negating improvements in exports. World agricultural trade, despite some liberalisation, remains subject to protectionism. The major economic issue for Australia in the late 1990s is the same as it was at the beginning of the 1980s: how to get increased investment in high value-added manufacturing and services and decrease Australia's reliance on the mining and agricultural sectors. Whilst Australia was more integrated into the international financial and capital markets, foreign debt grew enormously over the 1980s and early 1990s. As a result of all these factors, the current account deficit, the major policy 'problem' of the 1980s and early 1990s, remained

high, leading to pressures on policy to restrict economic expansion and leaving the economy vulnerable to changing financial 'sentiment'.[82]

82 INDECS, *State of Play 8,* Sydney, Allen & Unwin, 1995, pp. 106-107. For evidence and assessment of these issues, see the relevant sections of chapter 2.

Conclusion

This thesis has argued that to gain a more complete understanding of the effects of globalisation on Australia it is necessary to integrate historical and empirical analyses of the world and Australian political economies and to consider globalisation as both 'material' effect and 'ideological' construction. Whilst providing an account of globalisation as an empirical and, hence, measurable phenomenon, the thesis has supplemented this with an account of the way globalisation, as a constructed policy imperative, was used to persuade and coerce policy changes and downgrade societal expectations about the role of politics. The thesis investigated the interplay between international and domestic political economic developments, the policy-making process, efforts to persuade and coerce changing expectations and adjustment, and the need for policy-makers to 'manage' the constraints and opportunities of both the international and domestic domains. Globalisation was more than a constraint on policy, it was also a dominant and 'persuasive' construction, effectively used by policy-makers and other powerful social actors to support claims about the need for a new 'globalised', economic liberal policy structure in Australia.

For many analysts and policy-makers, developments in the world political economy - globalisation - meant that there was no 'real' choice but to embrace economic liberal policies. In this view, the story of economic policy in Australia during the 1980s and 1990s was one in which policy-makers simply adapted to events and forces bigger than themselves: whilst policy changes might have gone further and a little faster, the Labor Government's celebration of its policy shifts simply made a virtue of what was unavoidable in the face of global economic imperatives. Australia had to economically discipline itself or suffer the consequences of global punishment. Whilst successful adaptation would bring reward, failure to adjust would invite the "world" to force unsavoury outcomes that would shake Australia to its core. Alternative policy responses were simply not viable given the 'reality' of a global economy: Australia had to shift from a protectionist past to a globalised future.

Such a conception means that in an era of globalisation, politics remains merely as an epiphenomenon, important only at the margins of economic processes. The global economy rules, and states, individually and collectively, are compelled to conform. The argument that states and the societies they govern can choose alternative policy paths is seen as a sentimental traditionalism - a hankering for a world that has long since passed us by.

The dominance of economic liberal constructions of globalisation has been an important facet of the globalisation process itself: policies based on such interpretations and assertions have reinforced the development of globalisation and its impact on nation states. Globalisation has not been forced on states, rather state responses have been both shaped by and have shaped its progress. Undoubtedly, the expansion of economic connections between countries has been substantial, especially in finance. After the setbacks of the first half of the twentieth century, globalisation has extended beyond its previous golden age before World War I. Even still, globalisation has not progressed so far as to render states powerless, nor has it made nation states, as distinct entities, meaningless. States retain considerable policy latitude and are not compelled by a 'logic of globalisation' to embrace economic liberal policies. Alternative forms of adjustment are possible. Whilst future policy possibilities will continue to be constrained by developments in the world political economy, the outcomes of domestic political struggles will also continue to be important, not just for populations but for the globalisation process itself.

Assertions that economic liberal policy changes were being forced by globalisation overstate its pervasiveness and downplay the continuing consequence of developments within domestic political economies. Pressures for policy change in Australia resulted from a combination of international and domestic factors. The world political economy had an impact in the context of particular Australian structural economic problems and continuing societal expectations of a protectionist role for the state. The long-standing protectionist policy structure had been entrenched in the early years of Federation and reinforced over the twentieth century during good times and bad. Although by the 1970s this comprehensive policy framework had been shorn of its racist and Imperialist connections, the Hawke Government's predecessors had failed to break with the view that renewed vulnerability and crisis were best met by a reassertion of the traditional faith. Financial and trade protection, as well as a highly regulated domestic economy, remained in place at the beginning of Labor's 13 years of government. Although by the early 1990s, it was generally accepted that globalisation had made economic liberal policy change compulsory, in 1983 the major question was whether continuing economic and societal support for protectionism could be broken down. Given Australia's structural economic woes, policy changes *were* necessary. But what was uncertain was the extent and pace of change and whether efforts to shift away from protectionism should be matched by a new strategic interventionism and a more comprehensive welfare system to ease the burden of adjustment.

During the Labor Government's period of office, three major perceptions informed the argument that it was necessary to fundamentally restructure the Australian political economy: firstly, that the structure of the Australian economy was unsuitable for the

world of the late twentieth century; secondly, that developments in the world political economy were making the protectionist policy structure governing the Australian economy difficult to maintain; and thirdly, that this regulatory structure was creating problems of governance as government and the wider state were being squeezed by both world and domestic political economy pressures. Overall, it was argued that developments in the world political economy not only accentuated problems of Australian economic structure, but restricted the type of policies that could be used for restructuring as well.

The Labor Government quickly saw economic liberalism as the most appropriate response to the combination of world and domestic political economic pressures. The initial and comprehensive liberalisation of finance, the shift to macroeconomic restriction, the turn to tariff liberalisation and support for free trade, the gradual but eventually substantial liberalisation of labour relations, the corporatisation and privatisation of state enterprises and functions, the streamlining and targeting of social security arrangements, the decreases in taxation for business and the wealthy, the myriad of other microeconomic reforms - all were argued to be fundamental components of effective adjustment to global economic changes and to building a more competitive economy and productive society.

Although external developments provided a vital impetus for policy changes, the *form* of change was played out domestically. The outcomes of domestic political struggles over policy were still fundamental to the impact of the world political economy on Australia, just as they have been throughout Australia's short history as a nation. The form of adjustment was shaped by such domestic factors as the failures of past policies, a reformist Government with a zealous Treasurer, early decisions to liberalise finance, an Opposition arguing for a more comprehensive embrace of economic liberalism, an adaptable union leadership, extensive business and bureaucratic support. Given the need to maintain electoral support and the substantial efforts to educate the public about 'new global realities', policy-makers were well aware of the continuing ability of domestic politics to impede economic policy change. Continual efforts to 'sell' economic liberal globalisation were integral to the maintenance of office and to the momentum of policy change.

Rhetoric about the pervasiveness of the world economy was used to persuade the Australian population about the need for an increased resort to market processes. Arguments about economic forces compelling transformation were used to justify policy choices and attempted to instil in the Australian population an understanding of why the Australian political economy and political culture had to continually adjust to the world political economy. The construction of global economic imperatives

attempted to posit that, eventually, politics must succumb to the economic liberal 'logic' of globalisation.

Constant assertions about the impact of the world economy, the need for a new 'internationally competitive productive culture' and lower expectations about the role of the state in insulating Australians from economic change, all increased the focus of the public on economic problems and the need for, and legitimacy of, often painful adjustments and policy changes. The pervasiveness of the rhetoric of globalisation in the public sphere was integral to the governing process as a complement to the economic liberal policy decisions which in themselves constituted a fundamental aspect of persuasion. As the policy structure was liberalised, the effects of globalisation became clearer, accentuating pre-existing pressures from the world political economy and coercing changes in all areas of policy and the economy. Globalisation and economic liberalism as persuasion and coercion were the component parts of a restructured system of political and economic governance. The Labor Government's policy shift, as well as being seen as an economic strategy, should also be seen as a political project that aimed, paradoxically, to limit the idea of political choice.

Whilst the Labor Government had considerable support for its globalisation project, the restructuring process was state-led. The shift in policy does not signal a decline in state power, rather it shows the ability of the state in Australia to manage change and cajole and coerce societal adaptation. The shift in state goals during the Labor Government requires a reconceptualisation of ideas about policy autonomy and capacity. Notions of autonomy and capacity should now be assessed in relation to the ability of policy-makers to enforce societal adjustment to the world beyond the nation state. The 'domain' of policy autonomy has shifted: squeezed by both domestic and international forces, policy-makers increasingly placed the burden of adjustment on domestic actors. Such a conceptualisation does not mean a new freedom of action for the state: policy autonomy from external forces has diminished and the capacity for the development of a new politics of redistribution and public purpose remain constrained by globalisation and economic liberal policy structures. Whilst such outcomes have been pressured by economic developments, they have also been the result of deliberate political choices.

The Future of Economic Liberal Globalisation

Although persuasion is integral to government, the most appropriate form of persuasion changes over time. By the mid-1990s, the Labor Government had steered the state away from its traditional strategy of protectionist intervention towards facilitating adaptation to the world political economy. As the economic liberal policy structure was

set in place, the Government may have been wiser letting policy changes do the talking and reverting to a more comprehensive rhetoric of social protection. Incessant emphasis on the need for continuous change and endless adaptation fell darkly on many in the electorate. Rather than claiming credit for policy change and extolling the virtues of globalisation, it may have been better for the Government to re-emphasise the argument that the world economy had forced its hand. This was not Keating's way, however, and although he maintained that the Labor Government was developing a new free trading social democracy that took care of the disadvantaged, he maintained his stress on the need for continual change and for the public to see the 'bigger picture' of Australia's future as an open globalised *economy*.

The end of Labor's tenure did not signal the end of the globalisation project because economic liberalism is now firmly entrenched in the wider regulatory structures of the state. Debate over Australia's political economic future, as the Howard Government took over the reigns of the state, was not about whether the protectionist policy structure should be maintained or dismantled, but whether the shift to economic liberalism should be consolidated or accelerated. In the aftermath of the 1996 election, the Howard Government faced the dilemma that its 'relaxed and comfortable' view of the world did not fit with its support for continuing economic liberal globalisation. Howard's attempt to balance the two themes is well illustrated by statements about globalisation made on consecutive days in July 1997:

> But I have got a message for the battlers of Newcastle and, indeed, the battlers of Australia - that you have a government that listens and understands and is sympathetic to the human and social consequences of industry restructuring; that understands the pressure that globalisation of the Australian economy is imposing on particular economies.[1]

> It's no good being frightened of change. Globalisation is with us and will be with us forever and people who imagine that somehow or other we can hold back the tide of globalisation don't understand the modern world as we come to the end of the 20th century.[2]

Even though the momentum of the globalisation project was partially set back by the Howard Government's decisions to freeze tariff levels for the car and TCF industries, there have been no returns to the past. The new Government persists with the theme that globalisation is inevitable and that economic liberal policy responses are unavoidable.[3] Like its predecessor, the Howard Government believes that the population must be educated about the 'realities' of globalisation and either persuaded

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1 Michael Gordon, "Howard Floats Tax Havens to Boost Jobs," *Australian*, 17 July, 1997, p. 1.
2 Michael Gordon and Ian Henderson, "Suns Out, Make Hay, Howard Says," *Australian*, 18 July, 1997, p. 2.
3 See for example Richard McGregor, "Economic Transition Must Not Stop: PM," *Australian*, 17 June, 1998, p. 22.

of its benefits or convinced that there are no alternatives. There has also not been a change in the view that the state can do much about problems such as unemployment and poverty.[4] Nor has there been any support for a renewed industry policy activism to try to do something about Australia's continuing structural economic problems. Instead, the Coalition Government has reinforced the themes of policy modesty and greater individual self-reliance. Australia, Howard argued in 1998, "needs a new style of government, *one which acts strongly within the realms of the possible*, one with a disposition towards *individuals finding their own solutions*."[5]

Notwithstanding the fact that Australia now has a new policy orthodoxy, the changes made during the Hawke and Keating years will still need to be maintained for quite some time if they are to overcome the vestiges of the protectionist statism that has guided Australia through most of its time as a nation. Despite persuasive efforts and coercive policy changes, an acceptance of economic liberal globalisation cannot be forced in any absolute or final way. The globalisation project will continue to be contested (in Australia and in the rest of the world) and its perpetuation, therefore, is not inevitable. Protectionist sentiments remain in sections of business and the population and the possibility of a re-emergence of an alternative protectionist coalition, whilst seeming unlikely at the moment, cannot be discounted over the longer-term. The belief that turning inward and retreating to earlier Australian responses to deal with economic vulnerability would be catastrophic for Australia's future prosperity, does not mean that protectionist impulses will not continue to influence the Australian policy debate. The protectionist rationale remains and the temptation (and continuing potential) to use the state apparatus to insulate the domestic political economy from the outside world has not been removed. The lack of a strong alternative to Labor and the Coalition does not necessarily signal support for economic liberalism. Tendencies to substantially backtrack from globalisation remain out of the 'mainstream' and the preserve of the populist Right represented by Pauline Hanson's One Nation. But the longer-term impact of such reactions, and others from the Left, on the policy programmes of the two major parties remains uncertain.

Economic liberalism carries with it the same risks that all policy choices carry: the possibility of failure to achieve political and economic aims. The economic aim to reinvigorate economic growth by unleashing market forces and restricting the redistributive role of the state and the political aim to foster greater self reliance, a

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4 See for example Michelle Grattan, "Jobless May Not Cost Howard a Job," *Australian Financial Review*, 16 September, 1996, p. 17; John Short, "Howard Warns Job Fix Will Take Time," *Australian*, 14-15 December, 1996, p. 2.

5 Howard, cited in Dennis Shanahan, "Strength, Not Size, Howard's Way," *Australian*, 6 May, 1998, p. 7. Emphasis added. See also John Short, "Howard Urges Rethink on Minimum Wages and Jobs," *Australian*, 8 July, 1997, p. 1.

willingness to continuously adjust and lower expectations about the role of the political process, are both not beyond challenge. Ultimately the sustainability of recent changes in governance will be determined either by the production of widespread benefits or the acceptance of assertions about the inevitability and irreversibility of economic liberal globalisation.

Despite the impact of globalisation and its facilitation through economic liberalism, despite the fact that populations have been encouraged to believe that 'real' political choice is a thing of the past, *politics still matters*. Analyses of globalisation which assert that current policy tendencies are irrevocable downplay the continuing possibilities of political action. The need to maintain electoral support ensures that governments continue to be constrained by domestic politics. Governments must make political calculations about what populations will bear, how to maintain electoral majorities and what political economic strategies will produce the economic growth that is the basis of successful electoral politics. In the domestic political arena, economic liberal globalisation still has to provide a story about the good of the nation state - that open borders and the dominance of the market mechanism are the best way to advance national interests. Policy-makers, especially politicians, must continue to believe that it is a plausible story that can rally enough support to maintain its momentum.

Into the future, there can be no guarantee that assertions about declining state capacities to redistribute, to protect and to compensate will be believed; that diminished state responsibility for policy outcomes will be accepted; or that oppositional political forces and potential alternative governments will continue to refrain from articulating viable alternatives to globalisation and liberalisation. Because efforts to change the structure of the world political economy are difficult if not impossible for a small country to achieve, unless they coincide with the interests of a major power, some sort of domestic adjustment is always necessary. But economic liberalism is not the only form of adjustment available to states and societies, even in a globalising world political economy. There may be a globalisation strategy for Australia that eschews the polarisation of economic liberalism and attempts to ensure that globalisation creates benefits that are more widely distributed. Just as the concept of globalisation is contested and multifaceted so are the choices available to citizens and governments.

Policy structures shape how the burden of economic adjustment is to be spread. The development of these structures is a political process shaped by the decisions of policy-makers given licence by domestic political, particularly electoral, processes. Reactions to external pressures can vary and costs can be distributed in various ways, but a belief that little can or should be done to ameliorate inequalities is likely to be a self-fulfilling

prophecy. Arguments that political possibilities and socio-economic outcomes are determined by the world political economy downgrade the importance of the collective preferences of a country's citizens and their political representatives and constitute an attempt to absolve domestic actors from culpability for the negative repercussions of political decisions. This does not mean that the political process determines outcomes in the 'last instance', but it does mean that the state and the wider political process are not rendered powerless by globalisation. Blaming particular socio-economic results on global developments and forces beyond the control of the nation state is a contestable claim that is refuted by differing policy structures and outcomes throughout the countries of the world.

Following its progressive dismantling in the late 1980s and 1990s, the protectionist policy structure has been effectively undermined as a viable strategy for dealing with economic vulnerability. Unfortunately, the protectionist rationale has not lessened in importance. Sections of populations are affected differently by globalisation and economic liberal policy change and opportunities to take advantage of changes are unevenly distributed. Globalisation, it is often argued, is leading to an increase in inequality and while this is often lamented, it is also stressed that states and the governments that lead them must accept such outcomes lest they damage the dynamics of the capitalist growth process. Such arguments have significant historical precedents and can be seen as part of a longer-term economic liberal project that has aimed to limit the scope of state action to the 'protection' of the market economy. As Polanyi would undoubtedly warn if he were writing today, the danger is what unrestrained economic liberalism will generate in terms of a counter-movement and the possibility that the cure will be worse than the disease.

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