MULTIFUNCTION POLIS

LOST CITY OF OPPORTUNITY

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ABSTRACT

This thesis examines the Multifunction Polis concept, its possibilities and its failure. Of primary concern is the proposal of the concept to Australia by the Japanese in 1987. The rationale for this original concept was the promotion of twenty first century manufacturing industry as the means to revive economic growth. Part of the context of the thesis therefore is the faltering state of the Australian economy in the mid 1980s.

The Japanese context is also examined. The mid 1980s was a time of spirited debate about Japan's economic success and the possibility of a Japanese bid for global hegemony. The post-war world was based on the principles which embodied the social, economic and political structures that reflected America's internal power structures, including concessions made to labour. America's solution to stalled world growth was to remove barriers to free trade and withdraw its support for the International Labor Organisation, effectively universalising the new principles of weak state and weak labour. Since Australia had identified its own interests as coterminous with those of the United States, its shift to economic rationalism and enterprise bargaining can be explained in those terms. However, Japan had developed a unique mode of capitalist development and its challenge was to retain its own constitutive principles in the face of increasing pressures from America to align itself with the new trade order.

The argument of the thesis is that Japan, or more precisely its Ministry of International Trade and Industry (MITI), planned to universalise its own constitutive principles of strong state and weak labour through direct foreign investment. Japanese corporations abroad are effective
carriers of Japanese corporate practices embodying the virtues of weak labour, and their presence in the MFP would provide the opportunity to establish those practices in Australia. Japan's principle of strong state, characterised by a close association with business, would be encouraged by the need for the Australian state to collaborate with the private sector in the identification and establishment of long term growth industries in the MFP. The 'international' flavour of the MFP would give universal exposure to these principles.

Australia's adoption of economic rationalism circumvented the plan, and along with that went the possibility of establishing a high technology manufacturing base for this country.
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 institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text.

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

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July 1999.
I would like to thank the many busy people who generously consented to lengthy interviews about their involvement in the Multifunction Polis project. Their frank opinions were of great value to my research.

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INTRODUCTION

1997 marked a decade since the Japanese first proposed to the Australian government that the two countries collaborate to build a multifunction futuristic city in Australia. A year later the MFP was officially abandoned by the South Australian government.

The MFP project held out huge possibilities for the country in both a direct economic sense and in terms of developing new ways for Australia to profit from new technologies. It was widely believed that if Australia embraced these opportunities then the country could prosper. But the country did not respond well. Although it was eleven years before the project was abandoned, in truth it took less than a year for the initial potential to be lost. Even though a federal Labor government was present at its inception and a state Coalition government oversaw its demise, the party that was in office is not important. What is at issue is that as a nation Australia was unable to embrace the possibilities inherent in the project.

Why were the significant opportunities of the initial project squandered? Hamilton suggests that the establishment of a set of nine principles, written late in 1987, acted as a map to guide our exploration of the concept. "But", he says, "as with the explorer who draws his map before setting off, the risk was that we would find only what we could imagine and miss the unexpected treasures". In a sense he is right. That is

1 Walter Hamilton (1991), p. 44.
largely what did happen, but those principles were simply the reflected reality, or ontology, of the time. They reflected a set of shared meanings that in turn defined the development of the concept. Cox argues that "ontologies are not arbitrary constructions; they are the specification of the common sense of an epoch." This thesis aims to uncover part of that Australian ontology and to show how it shaped and limited the potential inherent in the concept of the multifunction polis. It is important to assert at the outset, however, that as analysts we can be aware that people generally will act in accordance with the prevailing ontology, but that those actions are not determined. There are conflicts and tensions within specific practices which hold out possibilities for alternate outcomes. The extent to which these conflicts and tensions are apparent is the measure of alternative possibilities.

As a concept the MFP project remained vague, ambiguous, contradictory and unclear until November 1996 when the South Australian government gave approval for the development of Mawson Lakes, adjacent to the existing Technology Park at The Levels, South Australia. At this point, the meaning of the concept became fixed as a 620 hectare urban extension to Technology Park. Even at this stage the proposal included scope for possible new high technology industries which planners hoped would be attracted to the area. However, the project's transformation from the nebulous to the concrete was accompanied by a renunciation of the concept of a multifunction city of the future and an acceptance of a much more limited and conventional regional urban development project. In 1997 the MFP project office was reorganised and then closed. The urban development project is still going ahead but now under the jurisdiction of the South Australian Land Management Corporation. What happened?

As a first step toward explaining what happened, it is useful to consider a comprehensive account of what the MFP was meant to be, as described in both Japanese and Australian documents. It is through an exploration of the inconsistencies in these documents that some pointers are found to guide analysis. It must be remembered that ten years is very long time in political and economic terms. When the concept was first proposed, Japan had a huge export surplus built on a highly efficient manufacturing sector and was awash with funds seeking international investment opportunities. Australia was its mirror image. It had a growing export deficit as a result of an inward looking and inefficient manufacturing sector, an over reliance on an uncertain commodity market and was seeking international investment to help modernise its economy. Japan is now groaning under the weight of an economic recession, brought on by real estate speculation and over lending by Japanese financial institutions, and the weakness of the Yen threatens continuing financial instability in the rest of the Asian region. Australia has managed virtually to wipe out its dated manufacturing sector rather than modernise it, and it is teetering on the edge of the Asian currency crisis. The failure of the MFP, however, cannot be explained in terms of these changes. If anything Australia would be in a stronger position now had the MFP developed according to its original concept because, despite all the Treasury-speak about the strength of Australia's economic fundamentals, evidenced by a balanced budget, real fundamental strength resides in a vigorous export-oriented high technology and information rich manufacturing sector, and that was the real promise of the MFP.

The original MFP concept

The original proposal by the Japanese in January 1987 at the ninth Australia-Japan Ministerial Committee meeting was briefly outlined in a two page document called 'A Multifunctionpolis Scheme for the 21st Century' tabled by Minister Tamura of Japan's Ministry of International Trade and Industry (MITI). It proposed bilateral cooperation between the two nations in constructing "a multi-functional futuristic polis" to "provide a forum for international exchange in the Pacific Basin area, as well as be a model for new industry and new lifestyles looking ahead to the 21st century". It acknowledged Australia's desire to develop "a new direction" and the international community's expectation that Japan should take political responsibility commensurate with its economic strength. It described the functions of the proposed polis as a "Locus for industrial concentration for the 21st century, including the hi-tech sectors, and for support functions" which would promote "cultural exchanges between the (sic) Japan, United States, Canada, Australia and the ASEAN nations" and which would have a 21st century resort-type living environment. It proposed that funding would be obtained by "recruiting companies from both our countries", and stated that "[b]oth the (a) overseas investment finance of the EXIM Bank of Japan and (b) overseas investment insurance of MITI will be utilized". At this stage there was no public announcement about the project.

That Australia's response was a little muted can be gleaned from a fourteen page summary of the meeting where this proposal was made. The summary devoted one paragraph to it, referring to the MFP not as a

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city, but as a "facility" which "could promote international exchange in the Pacific Region on new industry and lifestyle".5

After further discussion a more detailed document called A Multifunctionpolis Scheme for the 21st Century: Basic Concept was produced by MITI in September 1987. The production of this document followed the formation of an MFP Planning Committee to undertake a pre-feasibility study in Japan, comprising large Japanese corporations such as Chiyoda Chemical Engineering and Construction, NTT and Nippon Steel as well as other finance, tourism and high technology firms.6 The document reasserted the concept as "a multifunction 'City of the Future'" which would "involve the growth of 'high-tech industries' in information and life science technologies and 'high-touch industries' oriented to resort life, fashion, and culturally oriented pursuits".7 It stressed the importance of creating a new type of city designed to have "organically related" urban functions rather than functions which are simply added on to existing conceptions of what constitutes a city.

This document outlines the MFP's industrial potential from Japan's point of view, stating that Australia should bring its own perspective to the project. Because MITI's audience were potential Japanese investors, it discussed the industry environment in Australia in terms of potential. It pointed out that the limited scale of Australia's existing industry base, its unsuitability for mass production, its poor industrial relations record and its accumulated debts all served to limit investment opportunities, but that its political stability, skilled labour, relatively easy travelling distance from Japan and its well developed infrastructure and abundant land and

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6 Ibid., p. 35.
natural resources offered good potential for the development of high technology industries. It emphasised the developmental potential of several industries including biotechnology, computer software and rare metals. It suggested that these high technology industries be complemented by convention and resort industries and the whole endeavour supported by an infrastructure incorporating medical and health care, education and training, information and transportation systems. The report stated that these industries "are expected to promote the germination and fusion of a wide variety of technology and knowhow and spur the growth of new industries, and thereby boost the restructuring of Australian industry".  

In June 1988 the Department of Industry Technology and Commerce (DITAC) produced a document called *The Multifunction Polis Proposal 'One Australian Perspective'*: Its stated purpose was to help Australian business understand what the MFP was about and to identify some possible areas of commercial interest. The paper stressed the importance of the project being driven by the needs of the private sector, with the role of government limited to a negotiating role in the initial stages only. This probably explains the emphasis on 'One Australian Perspective' because its final form was meant to be shaped by the private sector. The document described the original concept proposed by the Japanese as "a futuristic city centred around tourism, leisure and scientific research". It used Silicon Valley and the Boston Triangle as models for development, particularly the location of research, education and commercial activities in the same spatial environment to foster new technologies and stimulate economic activity. Of Silicon Valley and the Boston Triangle, it said:

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8 Ibid., p. 5.
10 Ibid., p. 12.
Their success is based on the integration of entrepreneurial talent, responsive financial services, high technology enterprises in high growth industries and an expanding market for the innovative products of these enterprises.\textsuperscript{11}

In this report, basic infrastructure for the MFP included a higher education centre and finance in the form of interested investors. DITAC saw an appropriate role for government as facilitating the establishment of this infrastructure, with the higher education centre possibly provided by government and finance provided by "bring[ing] together sufficient world-class investors".\textsuperscript{12} It did not see the Federal Government providing funding for the project or being responsible for its final fate.

DITAC said that infrastructure should also include "new technologically advanced communications [and] transport", all of which should assist in the establishment of "leading edge" industries.\textsuperscript{13} DITAC's suggestions revolved around commercialising education and research, developing computer software and other information services and commercialisation of basic medical research. It identified a range of other industries as having potential for development within the MFP, including marine science and technology, building and construction technologies, space and aerospace, robotics, food processing, new materials, biosciences, transport and "other manufacturing and service industries". But DITAC went no further than highlighting these as possibilities, devoting about one paragraph to each suggested investment area. While no in-depth research of the developmental potential of any of the suggested industries is offered by DITAC, MITI went to some lengths to establish what the opportunities for investors in high technology manufacturing actually

\textsuperscript{11} Ibid.
\textsuperscript{12} Ibid., p. 14.
\textsuperscript{13} Ibid., p. 6.
were in Australia, both in their *Basic Concept* document as well as in a report of a survey of the Australian economy which they undertook at the time.\footnote{Japan Overseas Enterprises Association (1987). The findings of this report are elaborated in chapter 7.}

By the time DITAC's *One Australian Perspective* was written in June 1988 then, just over a year after the proposal was first made, the Japanese idea of an MFP as a 'locus for industrial development' had been dropped or ignored in favour of an MFP as a "hot house" for the development and application of innovative ideas.\footnote{Ibid., p. 2.} The role of government in Australia was restricted to negotiations with other nations, the provision of a forum for potential investors and the possible provision of a government funded higher education institution. MITI's clear identification of opportunities for Japanese investors in Australia was well researched and supported by offers for investment support from both the Bank of Japan and MITI. DITAC on the other hand had stated that there would be no incentives for investment in the form of site subsidies and that the MFP would only proceed on the basis of private sector initiative.\footnote{Ibid., p. 11.} The difference between MITI's and DITAC's approach is remarkable. *How can this difference be explained?*
A good place to begin is the chart reproduced in Figure 1 that shows the organisational structure of the MFP feasibility study which began in January 1989 and was completed in December 1989. It clearly reveals the central role MITI had given itself in mediating between the working groups (Japanese business) and the Japan Domestic Committee. There was no comparable role for DITAC, and the think tanks (Australian business) reported directly to the Australian Domestic Committee.

Other questions which arise out of these early documents is why did MITI take it upon itself to help Australia with its process of economic restructuring
in the first place? and related to this, why did that assistance come in the form of an MFP? If DITAC had decided not to take an interventionist role, then how would the Australian government ensure that the private sector would take up the opportunity provided by Japan? Most significantly, given its perceived importance for economic restructuring, what happened to manufacturing? Throughout the 1980s a central plank of the Hawke government's economic strategy was the Accord which formally integrated unions into decision making in relation to growing the economy, but the ACTU is curiously silent throughout the whole development phase of the MFP. Were unions excluded from this important project? If so, why?

Of course others have sought answers to similar questions, particularly prior to the time the project was given to South Australia when the MFP was still considered to be of national and international importance. There seems to be little speculation about why Japan would want to help Australia with its program of economic restructuring, but there was significant conjecture about why Japan would come up with the MFP proposal in the first place, revealing a basic mistrust of Japan's stated motives. Sugimoto for example warned against the colonising effects of this type of bilateral relationship and likened the MFP to the Manchukuo experiment, recommending a careful examination of the similarities and differences between the two.17 Similarly van Moorst suggested that Japanese motives were "part of a Japanese imperialist offensive",18 while McCormack found evidence to support the exploitative nature of Japan's imperialist ambitions in MITI's detailed analysis of Australia's raw materials and energy supplies." Camilleri argued that the MFP could be understood as a symbol of both the rise of North East Asia as a new

17 Yoshio Sugimoto (1990), pp. 128-129.
centre of world power as well as Australia's bid for integration with that region. Given Australia's tendency to align itself with great and powerful friends, he thought it possible that Japan would simply replace the United States as our "colonial master".20

On a different note Littler was concerned about Japan's tendency to locate research and development laboratories in other countries in order to benefit from recent trends in technological developments,21 implying that Japan's motives for proposing the MFP could be understood in this context. Inkster too argued that Japan needs to foster new basic research and development and that the MFP may have been an experiment in new institutional arrangements to facilitate that.22 Others have suggested that the MFP was little more than a reworked 'Silver Columbia' plan, a previous proposal by Japan to build a retirement village in Australia for wealthy Japanese retirees, an idea already rejected by the Australian government.23

Explanations of the differences between the role of government in Australia and Japan are often couched in similar terms, with connections frequently drawn between the interests of large Japanese corporations and the bureaucratic arms of the state to show how the latter paves the way for the imperialist ambitions of Japanese multinational corporations. Tanaka for example says links between the construction industry and MITI, the Ministry of Construction and the Ministry of Education have resulted in lucrative deals for the construction industry, but unnecessary and costly construction projects in Japan.24 He warns that these

20 Joseph Camilleri (1990), pp. 15 and 23.
21 Craig Littler (1990), p. 43.
24 Yuki Tanaka (1990), pp. 73-74.
interests now threaten Australian political processes through the "massive new projects" Japan proposes for this country. Hamilton, however, points out that the difference between the state in Australia and Japan is apparent in that projects promoted by MITI of this magnitude are usually the result of a bottom up consensual process rather than a top down process of decision making typical of delegated authority, with the latter characterising governments such as Australia. That the MFP was in fact a top down exercise in Japan is only an example of the exception which proves the rule with MITI's Tetsuo Matsufuji admitting that it was difficult to get Japanese business interested because of that and because of the expected low returns on investment. His method of persuasion was to appeal to their commitment to the long term health of the world economy.

Hamilton argues that the objectives of the MFP were identified early for the Japanese "because of their habit of developing long-term corporate plans and national industry visions." Australia, however, is unused to developing long term plans or identifying areas of growth.

The problem with most of these analyses is that they tend toward warnings about what could happen or prescriptions about what should happen, rather than providing an explanation of what went wrong. Only Hamilton reflects on this, arguing the 9 principles and Australia's lack of experience are to blame, but even that does not tell us very much about the policy environment in Australia. Nor does he tell us very much about the broader context which includes Japan's role in global affairs.

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25 Ibid., p. 77.
27 Ibid., p. 3.
When the question about Japan's motives is rephrased to ask why the country wanted to help Australia with its process of economic restructuring, one is more or less forced to take Japan's stated motives seriously. McCormack says that Japan has become very dependent upon Australia for supply of food, energy and minerals and in the 1980s that dependency was growing. He argues Australia's pleas to Japan to deepen its involvement in the Australian economy therefore fell "on responsive ears". Sasaki argued that Japan wanted to establish an "Asia-Pacific Economic Zone" headed by Japan and was working to stabilise relationships with countries in the region, including Australia. He says that the MFP is "a form of economic aid by hi-tech" and needs to be understood in the context of MITI's Comprehensive Cooperation Plan for New Asian Industrialisation "which was a comprehensive economic cooperation package combining aid, direct investment and imports". He says this plan was part of MITI's strategy to counter the move to free trade through economic zones such as the European Union and the North America Free Trade area.

These analyses deepen our understanding of Japan's stated motives, but they too lead to assumptions about Japan's desire to shore up its own national growth objectives. To broaden analysis a theoretical perspective is important. Japan's different form of capitalism and its emergence as an economic superpower in the period in question are important factors that should be considered. An historical materialist would identify them as indicators of a world order in transition. This seems to be a useful place to start. Based on this reasoning, chapter 2 begins with Robert Cox's application of historical materialism to international relations. He

argues that many reflections on what states do in the international arena rest upon neorealist assumptions which, he says, embody an ideological bias which tends to shore up the status quo. What we need to do is seek out those contradictions which may point to "the development potential of a new world order".30

Cox says that the world order which prevailed between World War II and the collapse of Soviet Communism was based on the hegemony which prevailed in the United States. The dominant class interests in the United States are served by a mode of production that creates linkages between social classes. These linkages are apparent in the common commitment to national growth, with the maintenance or improvement of dominant interests expressed in terms of national advantage. Hegemony at the domestic level is supported by a range of concessions made to subordinate groups which serve to reconcile them to the economic order, including bringing dissenting interests within the institutional framework. Cox argues that this became the basis of U.S. world hegemony and was successfully exported to other western capitalist countries via their dominance of the institutions of the United Nations. In other words, world hegemony in the post war period embodied social, economic and political structures that reflected America's own internal power structures.

After the Second World War Japan was integrated into the global trade and security system as America's partner in North East Asia, but Japanese capitalism was markedly different to that of the United States and other western capitalist countries. Emerging through a top down process of rapid modernisation, Japan became capitalist almost by

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default. Rather than reflect the institutional form of regulated capitalism, Japan developed a plan-rational approach to capitalist growth that ascribes a strong role to the state. Japan also developed a different corporate culture informed by a different social structure to that of the United States. Although these differences facilitated Japan's rise to economic superpower, the country's preoccupation with its own national growth objectives and the exploitative behaviour of its multinationals resulted in growing anti-Japanese sentiment among its neighbours and drove home to Japan that it needed to be seen as a more responsible economic actor if it wanted to protect its economic interests in the region. When Japan was called upon to make a contribution to world order commensurate with its economic success, but within parameters established by the United States, Japan's dissonance with the international institutional framework became apparent.

The first part of chapter 2 explores the historical materialist argument in order to show how the principles which characterised the post war period were established, with some compromises, to reflect the interest of American capital. Chapter 3 argues that when the post-war order faltered, Japan attempted to restructure patterns of global trade to complement its own internal constitutive principles rather change its internal structures. Understanding that a new hegemon must make its principles appear universal in form, they set about finding ways to teach other nations about the virtues of state led growth and Japanese corporate culture. Japan's reason for proposing the MFP is explored within this framework.

But why an MFP? There is debate over the antecedents of the MFP as a concept, notably the technopolis program in Japan as well as its other
experiments with science cities such as Tsukuba. This is understandable given that the MFP was meant to be a kind of international technopolis with resort facilities. A great deal of concern is expressed in debates about the impact of such a project on the Australian environment in ecological, cultural and social terms.\textsuperscript{31} Morris-Suzuki, however, gets to the heart of the issue. Her research into high technology cities in Japan finds that technopolises are distinguishable in Japan from other projects of this type by the fact that they are bases for high technology manufacturing.\textsuperscript{32} She warns that a multifunction polis which embraces "everything from company offices through research and manufacturing to leisure" is an anachronism, and that the needs of high technology corporations which are meant to drive the project will inevitably promote one or two specialised functions.\textsuperscript{33} She also suggests that MITI's role in promoting high technology cities in Japan has been overstated, and that it has been regional or local governments that have been the driving force behind their development.\textsuperscript{34} This is important because on the one hand it lends credibility to MITI's claim to be lending a helping hand to Australia to develop high technology manufacturing, and on the other it suggests that MITI expected Australian regional governments to make the most of opportunities which it presented.

An account of the antecedents to the MFP are developed in Chapter 4 which goes on to show how MITI also came to understand how desirable Japanese investment had become in low growth regions. It learned that Japanese multinational corporations had become effective carriers of Japanese corporate behaviour, embodying the other of their two unique

\textsuperscript{32} Tessa Morris-Suzuki (1990), p. 73.
\textsuperscript{33} \textit{Ibid.}, p. 76.
\textsuperscript{34} \textit{Ibid.}. 
(for modern capitalism) constitutive principles - the effective control of organised labour. Together with the pressure to act as a responsible global economic leader these experiences combined to produce the proposal to build a multifunction polis in Australia. Australia would 'learn by doing' the virtues of a strong state approach because a project of the magnitude of the MFP would require close collaboration between the state and business sector in Australia to determine the long term objectives of the MFP. Collaboration with Japanese multinational corporations, lured by generous incentives offered by regional governments, would teach the virtues of weakened labour. International participation would broadcast the success of these principles abroad. In this light it is interesting to note what MITI had to say about the MFP in its Basic Concept document in 1987:

The role of governments will be important, and the cooperation of the Japanese and Australia [sic] private sectors will be of crucial importance. In short, the scheme will require cooperation in attracting high-tech and "high-touch" industries, which will in turn necessitate examination of the approach to the private sector, reaction of the two nations to the project, and the gathering of information. Revision or development of Japanese and Australian legislation should also be considered as necessary.35

Having dealt with Japan's uneasy fit into a world trading system dominated by America and MITI's plans to deal with that in Chapters 3 and 4, Chapter 5 turns to Australia. But before dealing with this country's response it is necessary to return to the theoretical framework outlined in Chapter 2. The second part of this chapter essentially deals with a theoretical flaw in Cox's work. This flaw resides in the assumption that there is a direct relationship between the interests of the dominant or capitalist class and concessions made to appease the subordinate classes.

In the end it is a determinist argument which assumes that the state can and does make policies which meet the needs of capital. Chapter 2 recasts this issue in terms of an older debate over the relationship between accumulation and rule, or the class interests of capital and the role of the state.

The assumed links between accumulation and rule has been the subject of a long debate (the state derivation debate) which eventually split into two streams as a result of its failure to explain why the state in capitalist society could find no solution to the problem of low growth which marked the end of the long boom. Both streams are explored. The first, the Regulation approach which breaks with the state derivation debate in its attempts to find an alignment between regulatory and production regimes in particular historical periods. This stream falls into the same sorts of theoretical traps that the state derivation debate fell into in that it assumes an alignment between accumulation and rule without being able to demonstrate how that alignment occurs. However, it is useful insofar as it explains how the application of flawed theory to practice by the union movement has resulted in labour participating in its own exclusion.

The second stream builds on the lessons of the state derivation debate to reveal both the context within which the state does act and the mechanism which links state action and class interests. The context is the failure of business to generate new patterns of growth and the mechanism is the organisation or reorganisation of business to facilitate change. This is an argument which broadens rather than undermines the concept of hegemony by revealing how the structural dominance of capital is preserved through state action, even when the state appears to be working against the immediate interests of segments of capital. In the
case of the MFP the prevailing ontology which preserves the dominant position of capital both informed the state's response and deflected a broader view. It informed state action insofar as the state acted to organise business to facilitate change. But because it also informed the range of choices available it only acted in accordance with the accepted principles that shaped the prevailing world order. These arguments provide a way of thinking about much of the remainder of the thesis.

Chapter 5 moves the focus of analysis from Japan to Australia and locates the MFP proposal in the context of Australia's changing place in the world economy. It argues that in the post war world Australia happily aligned itself with the new international order dominated by the United States, designing policies that consolidated its position as a commodity supplier and ally. While growth was good, Australia benefited from this, but when the long boom ended, it ended in Australia too. The country's long reliance on tariffs and its inward looking industry structure meant that it was ill-prepared to meet the challenges associated with a changing global trading economy. Australia was confronted with reduced demand for its agricultural and mineral exports and tariffs no longer protected Australian manufacturing industries from foreign competition. These structural problems continued to plague the Australian economy with no concerted response on the part of government until the Hawke government came to office in 1983.

Camilleri argues that the Hawke Government came to office with a strategy designed to position Australia to benefit from the rapid growth being experienced in the Pacific Rim region. The strategy included the encouragement of export oriented industry and finance and, to complement that, the promotion of improved productivity and
international competitiveness. The concomitant policies included privatisation, deregulation and the relaxation of restrictions on investment. He says that the strategy "had a coherent logic [which was] to turn the economic dynamism of the Pacific Basin to Australia's advantage". Reduced protection was to assist in the development of a more efficient industrial base. He argues that the government's strategy failed to do this, and instead weakened the already weak manufacturing sector and increased foreign ownership of Australian assets. He argues that the MFP can be understood as a symbol of both the rise of North East Asia as a new centre of world power as well as Australia's bid for integration with that region.

Camilleri is right to posit his considerations about the meaning of the MFP in the context of broader issues related to changing world power centres and Australia's attempt to position itself in order to benefit from this. However, he gives the impression that the Australian government at the time faced these issues with a far greater understanding than they actually had, and with a far more integrated strategy. In fact the government came to office with a highly interventionist set of policies which they adjusted in the face of pressure, firstly from international finance and secondly from an alarming fall in Australia's terms of trade in the mid 1980s. These factors complicate matters to a much greater extent than Camilleri suggests.

Chapter 5 argues that when Australia's national debt began to accelerate in the mid 1980s as a result of the failure of business to reinvest profits which had been boosted via the Accord, the Australian government turned

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37 Ibid., pp. 15 and 22.
to Japan for help. Japan responded to a plea for investment in manufacturing by sending a mission survey to Australia in February 1987, to look over the economy and identify opportunities for Japanese investors. An Investment Mission Survey Report was produced by MITI in May 1987 which both preceded and informed the MFP Basic Concept document of September 1987. The Mission Report outlined a number of things Australia had to do to secure Japanese investment. The government had to inject more rigour into the management of the economy and further adjust the philosophy underpinning wage determination. The report also suggested that Japanese managers may be able to teach Australian employees the virtue of "effort and sacrifice" in the building of an export-oriented manufacturing sector. The Australian government's response was to hasten the process of economic rationalism rather than to consider the broader context of Japan's advice which suggested a stronger, not weaker, role for the state, and to capitulate to business calls to implement enterprise bargaining.

Chapter 6 explores the dilemma which Australia faced when the MFP proposal was made. How would it be possible to ensure that business would take up the opportunities the project offered without government intervention? After informing business about the proposal, Senator Button essentially sat back and waited for them to get on with it. However, business in Australia, as in western capitalist societies generally, does not have experience with the type of collaborative venture that MITI had in mind and had no idea about how to go about it. Instead of following the Japanese model of working with business to create a long-term industry vision to guide the development of the MFP, the government responded by establishing a series of think tanks and an organisational structure which would facilitate an upward flow of information to a joint
Japanese and Australian steering committee. They ascribed themselves no role at all in the development of the concept beyond implementing this organisational structure and continuing with country to country negotiations. Research reveals that business took the think tank process seriously, but was dismayed that their ideas were ignored in the Feasibility Report, which was meant to be based on those ideas, in favour of vague references to humanity (Renaissance City), technology (Technopolis) and the environment (Biosphere).38

DITAC was, however, greatly influenced by Japan's preference for a greenfield (untouched) site upon which to build the city, believing that Japanese funding depended upon it. Australian businesses could not understand Japan's emphasis on this point. It made more sense to them to build the concept around commercial opportunities. In line with that thinking they developed a concept of a dispersed MFP rather than a single city. Australia capitulated to Japan, but it remains to be explained why Japan was so firm on this issue. They had already had extensive experience with the development of similar types of projects in their own country, in the form of technopolises. These technology-based cities had proved to be rather sterile places in which to live and people were reluctant to take up residence there. MITI's reasoning appears to have been that they may learn something about how to create an alluring lifestyle through the development of the MFP in Australia, hence their emphasis on 'high touch' functions in the proposal. But MITI also had another motive for insisting on a greenfield site. Japanese multinational corporations require greenfield sites to properly implement their kanban system of manufacturing which requires close location of parts suppliers. If a single greenfield site was not approved, how would MITI be able to

38 Arthur Andersen (1989), Section 2: The MFP Concept, 2.2 - Themes.
display its corporate culture? A single city site, moreover, would have required significant negotiations between government and business, facilitating the 'learning-by-doing' of the principles which had underpinned Japan's approach to economic growth.

Chapter 7 examines why manufacturing was dropped from the MFP concept. Although Australia was keen to attract Japanese investment to promote high technology manufacturing industry, high technology was not a clearly articulated goal for this country. Australia's inward industry focus meant that it had largely missed out on the latest technological revolution that swept the rest of the western world. Research and development had not been a high priority for the private sector, and government ministers were poorly informed about what was required for its development. So when the Hawke government identified high technology manufacturing as a growth area Australia lacked the appropriate infrastructure, entrepreneurial expertise and government determination to turn its research capability into marketable products. Targeting high technology as a growth area clashed with the ideas of those in Treasury and Finance who interpreted any form of government targeting as 'picking winners'. Government therefore changed its emphasis from 'high technology' to 'research and development' and implemented policies to promote that. Research and development therefore came to predominate in the development of the MFP, explaining the importance placed on the strategic location of a research institution as a central component of its infrastructure.

The policy environment of the time was moving toward one shaped by economic rationalism which holds that government induced rigidities should be removed to enable the flow of resources to the most profitable
economic activity. It was this line of thought that rejected a targeted approach to high technology and the development of an appropriate industry policy as government objectives. This rejection of targets, industry policy and attempts to pick winners was consolidated in Ross Garnaut's assessment of Australia’s future economic opportunities in *Australia and the North East Asian Ascendancy* in 1989. Based on the theory of comparative advantage, this view insists that Australia should concentrate on developing its natural resources, a strategy which would be best served by more quickly removing barriers to trade at home and pressing for trade liberalisation in North East Asia. It is a position which successive governments have adopted since the late 1980s but one which has many critics. Most important for this thesis are those who have criticised economic rationalism for downplaying the importance of creating a competitive advantage through the strategic development of a manufacturing sector.

Critics of economic rationalism argue that creating a level playing field by removing all forms of government intervention is not an appropriate method for redressing the structural problems which plague Australian industry, such as poor business practices, complacent attitudes among management and workers, high costs and unreliable facilities and processes. They call for a more interventionist role for the state in the development of a strong, diverse but integrated industrial base, and skilled management and workers to facilitate the diffusion, utilisation and adaptation of new technologies.

This was the real potential of the MFP, a concept which would allow the diffusion of a new production paradigm throughout Australian businesses. Although they were certainly not the only elements that
shaped the thinking behind Australia's concept of the MFP, the ideas that underpinned economic rationalism were to blame for jettisoning high technology manufacturing from the development phase of the project. Key figures in manufacturing industry were not included in the think tank phase which gathered industry ideas for future development. The result was a service based concept which apparently bore little relationship to Australia's industry needs.

Framed in this way, the analysis leads to some further questions about influences on industry policy which are addressed in Chapter 8. Undoubtedly economic liberals in the bureaucracy have disproportionate influence, particularly in their ability to establish the parameters of debate, but both business and labour in Australia have significant influence on government policy, being insider interest groups. From the mid 1980s both attempted to shape the policy environment in accordance with their own views about what a new production paradigm that would deliver the necessary improved productivity and competitiveness should look like. Unions were concerned about full employment and advocated a comprehensive interventionist industry policy supported by a planning structure, including tripartite consultation at specific industry levels. Business wanted to remove rigidities in the wages structure and to implement enterprise bargaining to weaken the power of unions. Unions placed the responsibility for restructuring firmly with employers, while employers believed productivity was the key to improved competition and was a worker problem. Despite their different agendas, both groups promoted cooperation as the mechanism by which the broader goal of economic restructuring would be achieved. For workers this approach holds significant dangers. Based as it is on the trans-class view of industrial relations embodied in the influential work of John Mathews
and Laurie Carmichael, it hoped for a new role for unions in creating full employment and a democratised workplace. However, union experiments in reaching an accommodation with business in Britain have proved to be disastrous for workers. Chapter 8 explores some case studies which demonstrate those consequences and provides a way of understanding the implications for unions in not wanting to be seen to be obstructive in the on-going development of the MFP. The argument is that, in a very real sense, unions are in danger of participating not in a new form of industrial democracy, but in a new form of exclusionary politics which may find them jettisoned by their political wing as an anachronism from the past. In other words by attempting an accommodation with capital they may find themselves participating in their own exclusion from policy making without gaining any of the benefits that may accrue from having a strong state.

The thesis concludes that the MFP was an opportunity lost. Had the government and its advisers considered the proposal in a broader context it is possible that it could have been the catalyst for Australia to develop a high technology manufacturing base. That was, after all, why the project was conceived in the first place. It is a matter of some importance that policy makers understand the cost of filtering innovative ideas through their own preconceptions about how things ought to be done. Attempts must be made at least to fully canvass alternative possibilities. It is in that vein that I now turn to critical theory and a different way of thinking about this extraordinary proposal.
CHAPTER TWO

THEORETICAL FRAMEWORK

Introduction

The Australian state has, since the late 1970s, been moving steadily toward the adoption of a version of neo-liberal or free market economics as its guiding philosophy. This is a philosophy which does not just pertain to guidance of the economy, however, since it is increasingly embracing the totality of social life with all its aspects, in policy terms at least, understood only insofar as they impact on the economy. The impetus is provided by economists who, according to Cohen:

> in their search for optimum efficiency, ignore political constraints because they are considered to be either shallow aberrations that can be circumvented by brilliant mathematical formula or boring anachronisms that will gradually catch up to the swift pace of economic change.¹

This preoccupation with mathematical formulæ reflects the logical positivism of the 1920/30s Vienna School that sought to extend the methods of the physical sciences to social science. Neo-liberal economics rests upon the self-interested behaviour of the abstract individual that it works into mathematical models used to assess the impact of various phenomena on economic growth. If human behaviour subsequently does not conform to the assumptions built into the model, then human behaviour itself, not the model, is called into question. Critiques of this

approach resemble the early critical theory response to positivism for privileging science above humanity.

The first generation of critical theorists were associated with the Frankfurt School and were most critical of the positivist tendency to apply 'value-free' theories to human action, which they believed resulted in paralysis of social theory and a freezing of existing power relations. They followed Marx in that they saw a direct link between economic development and relations of domination and subordination. They were also interested in the forces that move society towards the establishment of rational institutions, especially the state. Like Marx they were not just interested in identifying these forces, but in the possibility of radical social transformation. Building on Marx's analysis of the forces and relations of production, which he saw as central in determining the structure of society, their goal was to develop a dialectical and materialist social theory by revising and updating orthodox assumptions in the light of historical events which Marx could not have foreseen. Kellner says of critical theory that:

one of its enduring contributions is its appropriation of the Hegelian-Marxian dialectical heritage which sees socially critical categories and analysis to be fundamentally historical and in need of development and revision as historical conditions change.²

Although critical theory is interdisciplinary and by no means confined to Marxism, it is that tradition which informs the theoretical perspectives outlined in this chapter. Modern critical theorists from this tradition remain concerned with relations of domination and subordination and with the growing inequalities between rich and poor. They also remain

concerned with the role of the state in furthering the interests of the dominant class.

Critical theory is applied in this chapter in the first instance to the period of American dominance to provide an analytical framework for thinking about both Japan's motives for suggesting the MFP and Australia's response. In the second instance the framework of critical theory is applied to consider the nature of the policy process in Australia with specific reference to the relationship between business interests and the process and outcomes of policy making.

Three streams of thought which are grounded in this tradition are developed here - the reconstruction of historical materialism, the state derivation debate and the reformulation of the state derivation debate. The first attempts to reconstruct Marx's concept of historical materialism, which holds production to be the fundamental material basis of social life, and apply it to the arena of international relations. It updates Marx's concept, which was criticized for its reductionism, by conceiving production as "the whole context of ideas and institutions within which the production of material goods takes place". This stream is developed first because it clearly elaborates the critical theory context before going on to show how world orders are grounded in the constitutive principles of the prevailing hegemon. From this perspective it is possible to place the events which led to the proposal by Japan to build an MFP in Australia in a new light. The world order which came into being in the post-war period was based on a set of constitutive principles designed to meet the class interests of American capitalists. When considering Japan in this context, and from a critical theory perspective, one is inevitably led to ask

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questions about the lack of fit between those constitutive principles and the demands America was making of Japan as a new economic superpower in the mid 1980s at precisely the time it came up with the idea of the MFP.

Japan's bid to gain a footing in Australia to enable it to promote the construction of world order based on a set of constitutive principles more complementary to its own failed, because (as it will be shown in a later chapter) liberal ideas about small government and free markets were firmly embedded in the structures of government and only required the apparent failure of the Keynesian experiment to reemerge triumphant.

The second stream of thought grounded in the critical theory tradition is the state derivation debate which dates from the late 1960s. This debate is concerned to refute pluralist assumptions that power is relatively diffuse throughout society and that the state responds neutrally to competing interests. The development of this debate is examined here to reveal the mechanism by which the state influences outcomes favourable to capital. That mechanism is the organisation of business and that finding is applied to the Australian government's relationship with business in the early stages of the development of the MFP project in this country.

The third stream of thought is the reformulation of the state derivation debate using the work of the French Regulationists. This attempts to grapple with the implications of new technology and the transition from one mode of accumulation to another, or from one historical bloc to another. It is developed here to show how undertheorised explanations of state power used as the basis of a political strategy not only leave existing
power relations intact, but become complicit in their perpetuation. It is applied to the trade union response to the MFP.

**Historical Materialism applied to International Relations Theory**

This theory derives from the work of the 'new Italian School' of international relations, otherwise known as reconstructionists of historical materialism. The work of the new Italian School is inspired by the search for ways to analyse problems generated by globalisation and the advocacy of unregulated markets. It grew out of a renewed interest in the work of Gramsci as an alternative to mechanistic versions of Marxism and the decline in its attractiveness as a field of analysis following the collapse of the Soviet Union. A careful reconstruction of Gramsci’s position frees Marxism from determinism by arguing that there is no necessary unidirectional, causal relationship between an economic crisis and a political crisis because, in the west, the state is embedded in a "sturdy structure of civil society" premised upon both legitimate rule and government by consent. Gill says that

> the Gramscian approach explains the nature of the state in terms of the complexity of state-civil society relations, and shows how the nature of state power is related to the strength of the dynamic synthesis between the key forces in the economy and society, operating politically on an inclusive basis.

Robert Cox is the most influential of the writers from this school of thought. His application of historical materialism to international relations theory is best demonstrated when he contrasts it with neorealism, an offshoot of realism which has its roots in positivism. As already indicated, positivism is a branch of the philosophy of science

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which argues that experience, observation and testing are the only bases upon which we can claim to know anything about the world. Its method is derived from the natural sciences in which subject and object are separated so that cause and effect can be identified. When applied to the study of international relations, Cox says, it is to show how powerful actors 'cause' the less powerful to change their behaviour, but because they take no account of the fact that behaviour is shaped by the systemic nature of society itself the theory cannot account for fundamental change. He says that:

the social system comes to be perceived as standing outside of and prior to history. History becomes but a mine of data illustrating the permutations and combinations that are possible within an essentially unchanging human story.

For neorealists the pressures of social reality are defined as problems which can be solved within the same sphere of human activity which produced them. For example they are able to treat foreign policy as "the pure expression of state interests" because they are unconcerned with the complex relations between state and civil society which produce different forms of states. In this view a state is a state is a state. Because this approach is ahistorical and assumes a broadly unchanging pattern of institutions and relationships it allows Cox to argue that it embodies an ideological bias in its analysis. He says that this problem-solving approach:

can be represented, in the broader perspective of critical theory, as serving particular national, sectional, or class interests, which are comfortable within the given order. Indeed, the purpose served by problem-solving theory is

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8 Robert W. Cox, cited by Timothy Sinclair, Ibid.
Conservative, since it aims to solve the problems arising in various parts of a complex whole in order to smooth the functioning of the whole. Critical theory on the other hand, takes a dialectic approach which holds that confrontation arises wherever situations of power imbalance occur, and these situations therefore hold the seeds of their own potential for transformation. The institutions within a particular social formation reflect the power relations existing at the time of their establishment and provide a forum for expression of dissenting views which can be incorporated in ways which do not undermine the interests served by that social formation. However, although these institutions "provide ways of dealing with conflicts so as to minimize the use of force", competing views of what constitutes justice and public good indicate latent "alternate paths of development".

Cox draws heavily on Perry Anderson's reconstruction of Gramsci's analysis of the state, civil society and class rule in the 100th edition of New Left Review. Gramsci was primarily concerned with the development of social formations at the national level, arguing that this is where the roots of national hegemonies were formed. Two different strands of thought contribute to the Gramscian concept of hegemony. The first emerges from the Third International and its debates about the dominance of the Russian proletariat. The second came from Machiavelli's concern about the creation of a new state.

In the first strand, Gramsci turns on its head the idea of dictatorship over the bourgeoisie with the consent of the peasants and seeks instead

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10 Ibid., p. 89.
11 Ibid., p. 95.
12 Ibid., p. 99.
13 Perry Anderson (1976/77), pp. 5-77.
explanations about how and why the bourgeoisie had, in Northern Europe at least, successfully achieved hegemonic leadership over workers. He found that they had succeeded by making concessions to the subordinate classes which in turn made capitalism acceptable, leading to forms of social democracy where political leaders could act with autonomy "so long as these rulers recognized the hegemonic structures of civil society as the basic limits of their political action". Also the state was, for Gramsci, more than the executive, administrative and coercive branches of government because the institutional structures of civil society itself, including the church, schools and the press, came to participate in the socialisation of citizens appropriate to the hegemonic order. Cox says,

If they reflect a hegemony, these institutions and ideologies will be universal in form, i.e., they will not appear as those of a particular class, and will give some satisfaction to the subordinate groups while not undermining the leadership or vital interests of the hegemonic class.

The second strand came from Machiavelli, who was concerned about uniting Italy under strong leadership with the consent of the governed. What interested Gramsci was Machiavelli's notion of consent and coercion (embodied in the notion of the centaur, half man, half beast). Gramsci agreed with Machiavelli that both were important in the establishment of an appropriate basis for leadership but argued that consent must be uppermost for hegemony to prevail with coercion manifest only when threats to the established order occur.

Cox elaborated these concepts to explain world hegemony. He says

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A hegemonic society, following Antonio Gramsci's thinking, is one in which a dominant class has made its conception of social order acceptable to subordinate classes. Social conflict is not eliminated (it never could be), but it is institutionalized and regulated. This institutionalization of conflict within the dominant power or powers becomes the basis for an institutionalization of conflict at the global level.19

This means that the origins of global power structures can be traced to the domestic social forces which underpin, or constitute, the prevailing hegemonic power. He says it is clear that "there are different forms of state and world orders, whose conditions of existence, constitutive principles and norms vary over time" and it is the task of the historicist "to reveal the historical structures characteristic of particular eras within which such regularities prevail".20

A hegemon for Cox, therefore, is not just the most powerful state with the greatest military capability. It is a state, conceived in its broadest social form, within which the dominant class has established its hegemony, but whose interests spill over national boundaries and shape the international system accordingly. These interests are bound up with the dominant mode of production and create links between social classes at home, but as world hegemony grows, both the dominant mode of production and links between social classes become international in character. Cox says

World hegemony can be described as a social structure, an economic structure and a political structure; and it cannot be simply one of these things but must be all three. World hegemony, furthermore, is expressed in universal norms, institutions and mechanisms which lay down general rules of behaviour for states and for those forces of civil society which act across national boundaries, rules which support the dominant mode of production.21

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Social forces, forms of state and world orders can be loosely approximated to material capabilities, ideas and institutions, and because these elements have a reciprocal relationship with each other, changes in one area will inevitably affect the others. Therefore to identify a hegemonic period in transition, or a transition from one dominant power to another, one must examine each of the structures to see which are in the process of change. Since the 1970s changes have occurred at all three levels.

*Pax Americana*

Between the second world war and about the end of the 1960s the world order was shaped by the needs of American capital. The U.S. had emerged from the second world war with the confidence, internal strength and expansive potential to attempt to found and guarantee a world order based on its own social, economic and political structures. In its formulation, however, the principles of American hegemony were contradictory. The contradictory forces began within America and were played out between the advocates of domestic economic growth and national planning, who tended to be Keynesians and supporters of Roosevelt's New Deal on the one hand, and international free trade advocates on the other. While the former were ultimately defeated, they shaped the institutional framework to the extent of eliciting a commitment to full employment in America. The internationalists worried about the alliance between the economic planners and trade unions and the extent to which they would, if allowed, intrude into the sphere of business decision making. In order to avert this threat, they realised that they needed to ensure strong enough economic growth to sustain full employment, and they argued this could be achieved through running an export surplus of the order of US$5-10 billion per year thus making an
expansionist role for government unnecessary. Their strategy would have the added advantage of absorbing the excess output of an expanded production capability built up during the war.\textsuperscript{22}

Block argues that they appeared not to know whether running an export surplus would in fact sustain full employment on a long term basis. Rather they appeared to rest their arguments on the hope that somehow the economy would be reorganised so that employment could be sustained with an import surplus in the 10 to 20 years that it would take before an export surplus was no longer viable. The problem with this strategy was that running an export surplus for that long would delay the imperative to reorganise the economy.\textsuperscript{23}

Their arguments contrasted with those of the economic planners, who believed that government's role needed to be greatly expanded in order to create the conditions for full employment. They also wanted to extend the New Deal abroad "to promote global economic and social reform". Accordingly, New Dealers believed that the US should reduce tariffs to enable other countries to sell more of their goods in the US and wanted to establish international institutions which would make funds available to underdeveloped areas rather than relying on the self-interested behaviour of private foreign investors. Paradoxically, their views resonated with the strategies of the internationalists who wanted to eliminate tariffs to create a level playing field. Even the International Monetary Fund, which was conceived and implemented as a device to facilitate the achievement of national objectives, was instead successfully used by the internationalists to impose deflationary discipline on expansionist governments.\textsuperscript{24} For the

\textsuperscript{22} Fred Block (1977), p. 35.
\textsuperscript{23} Ibid., p. 37.
\textsuperscript{24} Ibid.
defeat of the planners, Block blames the weakness and disorganisation of the American labour movement.25

The internationalists successfully created a multilateral trade order through the twin mechanisms of the Marshall Plan and rearmament. The former was a strategy to rebuild the economies of Western Europe and Japan with the latter providing the rationale for Congress to release the huge sums of money required. However, Block argues that

the United States ... created an international monetary order that worked only when American political and economic dominance in the capitalist world was absolute. That absolute dominance disappeared as a result of the reconstruction of Western Europe and Japan, on the one hand, and the accumulated domestic costs of the global extension of U.S. power, on the other.26

The plans and strategies of the American internationalists met with resistance from the countries that would be most affected by them. Although the extent of opposition differed between countries it "was united in its rejection of unimpeded multilateralism".27 Other countries refused to jeopardise their national social and employment goals for the sake of an external financial system which was designed to support the interests of American capital. The institutional framework put in place to support multilateralism was shaped by these competing views, which Ruggie calls an 'embedded liberalism compromise'. He says

Unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism.28

25 Ibid., p. 38.
26 Ibid., p. 163.
28 Ibid.
The United States resisted compromising the tenets of free trade, especially the compromise of making full employment an international obligation. But during the course of negotiations on postwar commercial arrangements – specifically the International Conference on Trade and Employment and the General Agreement on Tariffs and Trade (GATT) - it was only able to limit the range of commercial activities which would be subject to international scrutiny. America's real achievement in this context was that it was able to ensure that the effects of domestic 'cushioning' would "be compatible with the long-term expansion of international economic transactions".

In other words, Ruggie's argument is that America's toleration of compromise was to prevent both domestic and international economic orders from breaking down as they had in the interwar years. As it has been shown, within the United States this was a compromise between New Dealers and the internationalists. At the international level the compromise was between the United States which resisted too much interventionism, and Western Europe which opposed liberal orthodoxy. The result was a liberal economic order which allowed for some interventionism to regulate the effects of the market.

Block argues that the U.S. failed to erect an adequate organisational infrastructure to ensure the smooth working of the world economy because its primary objective was to make the world safe for American capitalism. As Ruggie shows, however, the institutional framework that

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29 Ibid., p. 396.
was put in place was as much based on the compromises Americans had to make to achieve that goal as on the shortsightedness of their strategy.

One of the central issues which all three writers (Cox, Ruggie and Block) address is America's successful attempt to moderate the influence of the left, particularly by splitting the working class movement into either communists or supporters of the American model of business-union collaboration. Cox argues that the American Federation of Labor and the Confederation of Industry Organisation (AFL-CIO) was complicit in this endeavour. He says:

American organized labor has, indeed, since World War II, behaved abroad as an integral element in the global expansion of American capitalism. Whether consciously or unconsciously, its relationship to labor in other countries has been subordinated to this goal. American labor's foreign policy has stressed American interests first, international labor solidarity second — and indeed the second has been so far behind as hardly to count at all.

The AFL-CIO's role in this respect was consistent with its support for the construction of a corporatist state in the U.S. The latter had been the basis of the International Labour Organisation programs and ideology since its formation in 1919 and was a response to the threat of Bolshevism in that it "offered organized labor participation in social and industrial reform within an accepted framework of capitalism". Britain especially was anxious to internationalise tripartism so that it would not be disadvantaged in world markets. America was not a member of the ILO until Roosevelt attempted to give an international dimension to the New Deal by joining in 1934. From then until its resignation in 1977,

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34 Ibid., p. 387.
America sought to shape ILO policy, especially by encouraging trade union freedom and collective bargaining, but within an overarching consensus about a particular model of production relations which did not threaten the dominant economic interests. Within America, this form of tripartism did not survive the weak labour movement, but at least until the 1960s it had sporadic support because it could elicit compliance between powerful corporate and working class interests "in a political culture that rules out direct government control over these interest groups". Despite America’s withdrawal from the ILO, the bureaucratic structure of the Organisation continued to embody tripartism as an ideology. Its enduring legacy is the continued inability to "confront... effectively the real social issues of employment-creation, land reform, marginality, and poverty in general".

As would be expected, Cox draws parallels between this example and the Gramscian concept of hegemony to illustrate how American domestic principles became universalised. Both at home and abroad, he says, "the dominant groups make some concessions to satisfy the subordinate groups, but not such as to endanger their dominance".

The internal American constitutive principles of this period then can be characterised as a moderately weak state with weakness measured in terms of its reluctance to tolerate interventionism, and tripartism with its incorporation of labour. These principles became the basis of American hegemony on a world scale. The principles governing trade were embedded in the General Agreement on Tariffs and Trade (GATT, now the World Trade Organisation) whose task it was to promote multilateralism;

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36 Ibid., pp. 74-78.
38 Ibid., p. 387.
the International Monetary Fund (IMF) which would provide short term loans to fund payments deficits on current account to enable the maintenance of exchange rates; and the International Bank for Reconstruction and Development (The World Bank) which would provide investment capital for economic development.\textsuperscript{39} Labour had a voice in the International Labour Organisation, if only to the extent of shoring up the interests of capital. The effectiveness of these regimes can be assessed, says Ruggie, from the extent to which they reinforce "shared understandings of desirable and acceptable forms of behaviour among the relevant actors", rather than the extent to which they "produce saints from sinners".\textsuperscript{40}

The period from 1945 to about 1970 is often referred to as the period of 
\textit{Pax Americana}. It superseded a period marked by the decline of British hegemony. \textit{Pax Britannica} had been in existence from about 1845 to 1875, a period when world trade was made stable for British production via the gold standard, free trade and British military dominance. British hegemony began to decline about 1875 and the period from then to the end of the second world war was marked by challenges to the established order apparent in increased protectionism, the abandonment of the gold standard and the fragmentation of the world economy into economic blocs. Cox calls this period a non-hegemonic period.\textsuperscript{41}

The world order dominated by the United States did not differ in fundamentals from the order which Britain sought to establish - they both wanted predictable exchange rates, open trade and ever increasing economic growth and productivity. However, Cox argues, multilateralism

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\item[40] \textit{Ibid.}, p. 209.
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was more successfully institutionalised than it had been under *Pax Britannica*. Whereas the latter had unsuccessfully sought to universalise free trade as an ideological companion to peace through the League of Nations in the interwar period, the former succeeded through its dominance of the United Nations, whose agencies attempted to align the domestic arrangements of member states with the requirements of the world economy.\(^{42}\) These agencies came to be "supplemented by elaborate machinery for the harmonization of national policies",\(^{43}\) such as mutual review procedures through NATO, the OECD and other agencies until the idea of mutual adjustment of national policies was internationalised.\(^{44}\)

The early 1970s are thought to generally mark the end of *Pax Americana*. This was apparent in the country's loss of absolute economic dominance and in the abandonment of the U.S. dollar/gold nexus. But as productivity declined, accompanied by a challenge for economic dominance from Japan, Reagan and Thatcher withdrew their support for tripartism in a bid to reestablish competitiveness. This undermined the social contract and the welfare state that characterised post-war Britain, and America's resignation from the ILO in 1977 marked the end of its support for the incorporation of labour as one of the post-war constitutive principles. Most capitalist countries have engaged in some reduction of commitment to labour and welfare since then. Cox argues that the trade union movement has tended to support governments in this endeavour in an attempt to shore up full time employment. This has divided the working population into groups of unemployed or casually employed but depoliticised workers and full time workers who share in the spoils of

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\(^{41}\) Ibid.

\(^{44}\) Ibid., pp. 108-109.
restructuring and who continue to legitimate the emerging order, albeit in a weakened form.45

The argument made here then, is that the period from 1970 until the present has been a period when the old hegemonic order based on the American constitutive principles of a moderately weak state and the incorporation of labour has been giving way to a new set of principles of a much weaker state and the exclusion of labour. In the context of the Asian currency crisis of the late 1990s, the role of the IMF in universalising these new principles can be clearly seen.

This argument will be elaborated throughout this thesis. It will specifically address the challenge from Japan and the threat of an emergent Pax Nipponica in the 1980s. It will argue that Japan understood clearly what was required for an hegemonic challenge and outline how it went about the task of universalising its own constitutive principles of strong state and the exclusion of labour. Japan's offer to collaborate to build a multifunction polis in Australia can only be fully understood in this context of transition and challenge to the established world order. As Cox puts it, a fundamental project for the historicist is to find "the contradictions and conflicts inherent in a social structure and contemplate... the characteristics of emerging social forces and the nature and extent of structural change that is feasible".46 It will be argued that Japan's bid for hegemony was not feasible given the embeddedness of multilateralism in the post-world order, despite the contradictions and compromises which characterise American hegemony.

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The remainder of this chapter develops two related themes. Firstly it needs to be explained how it is that labour has come to participate in its own exclusion. Secondly, claims made by Gramsci and Cox that government autonomy is limited by "the hegemonic structures of civil society" need a closer look. There is a lengthy debate about the nature of the state in a capitalist economy which seems to have come unstuck over the question of how to explain the relationship between capital and the state without falling into the trap of economic determinism. It is not enough to say that the state is only legitimate if it recognises the limits to its autonomy and operates within those limits. If its legitimacy rests upon concessions to purchase consent, who defines what concessions are acceptable to the dominant class? To frame the issue in this way is to suggest that the limits to the autonomy of the state are defined by capital. But capital as a whole does not speak with a unified voice. What is missing is an explanation of how the state defines the interests of capital. The following is an overview of the state derivation debate and its reformulation, which explores the problem but fails to resolve it, before outlining the work McEachern who does find an answer.

**The State Derivation Debate**

The state derivation debate, according to McEachern, has during the past two decades developed through two phases. The first phase can be characterised as an attempt to formulate a general theory of the capitalist state, which would explain the state's role in maintaining and reproducing capital as a relation of class domination. This phase was dominated by the exchange between Miliband and Poulantzas, who agreed on the basic premise but differed in their methodology. Miliband's explanation of the relationship between state action and class domination was based on the shared interests of the governing and capitalist classes, while Poulantzas
emphasised the structural necessity for the state to work in the interests of capital accumulation. At the end of their exchange, however, even their methodology aligned with Miliband conceding the relevance of the objective role of the state, and Poulantzas responding to charges of structural determinism by moving to an assessment of the presence of capital within the state. They both failed, however, to explain why the state should act in the interest of the dominant class. The first phase ended with Offe’s failed search for guarantees of the class relevance of state action. The second phase of the debate attempted to move beyond a class contingent theory. Block, Skocpol, Urry and Jessop, says McEachern, have all made important contributions in this regard. Block emphasises the importance of understanding that state managers may act in accordance with their own interests, rather than any conditional necessity to act in accordance with the needs of capital itself. Skocpol emphasises the importance of the political process and rejects any functional analysis of state action, while Urry stresses the importance of struggles within the realm of civil society and the impact they have both on policy and on social and political institutions. Finally, Jessop rejects any generalised approach to the analysis of the capitalist state, arguing that the identification of compatibility between state action and the needs of capital must be discovered in each particular set of circumstances.

Holloway and Picciotto have pointed out that the debate over-emphasised the role of the state in maintaining a specific pattern of accumulation and domination, at the expense of an analysis based on the recognition that

Ibid., pp. 20-26.
the state itself is only one aspect of the social relations of capital. The inadequacies of the debate have become obvious in relation to the problem of low growth since the end of the 1960s, particularly its inability to explain "the relation between the economic and political processes and the changing forms and functions of the state through which the ruling class attempts to control the outcome of the crisis". Holloway and Picciotto argue that the problem of low growth must be viewed as a crisis of the capital relation encompassing all economic, political and ideological forms of that relation.

Hirsch, on the other hand, argues that the debate failed because it did not grasp the fact that the historical development of capitalist societies is characterised by fundamental changes in the totality of social life, and that the state has increasingly become an 'organic element' of social and economic reproduction. He calls instead for a theory of capitalist development which accounts for "crisis-determined transformations of specific capitalist social formations".

It is because of these types of criticisms that the development of state theory has now divided into two streams. McEachern, for example, has continued to build upon the lessons learned from the debate, developing the concept of 'political regime' to explore more fully the reordering of the relations between classes, the way those classes are organised into politics, and the changing patterns of class/state relations. The alternative stream has attempted to reformulate the debate to "develop a more concrete, institutionalist theory of the state under different conditions".

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49 John Holloway & S. Picciotto (1990), p. 76.
50 Ibid., p. 77.
accumulation regimes". It is the latter stream which will be examined first.

The Reformulation of the State Derivation Debate

The reformulation of the state debate was largely based on the theories of the French Regulation School. The regulation approach was developed further by Sabel and Piore in the U.S., then taken up by Hirsch in relation to the transformation of the West German Social Democratic Party. The Reformulation has also been applied by Holloway to critically assess the transformation of British politics under Thatcher, while in Australia it has been refashioned by Mathews as a strategy for change.

The French Regulationists identified economic crisis as resulting from a breakdown between the regulatory role of money and the prevailing methods of production which together constitute a particular regime of accumulation. The uneven application of new technology across branches of industry breaks down the nexus between monetary stability and productive competitiveness which results in a phase of disintegration of the existing regime of accumulation. The institution of a new regime of accumulation begins with the transformation of the processes of production, but structural integration which facilitates the reimposition of the regulatory role of money is undertaken by the state. The state in this model "is merely the institution that ultimately secures the functional integration of the regime of accumulation as it imposes order onto chaos".

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57 John Mathews (1989a) and (1989b).
The concepts of Fordism and post-Fordism have been applied by the Reformulationists to the phases prior to and after the period of crisis which occurred between the late 1960s and early 1970s and which generally marked the end of the long boom. They attempt to identify a correspondence between regimes of accumulation and domination in each phase. The state in this theory takes an overt role in aligning its regulative forces with the productive needs of capital. Keynesian economics in the Fordist period is said to have provided the regulatory framework which achieved political integration via the institutionalisation of organised labour and the balancing of profit and demand (mass production and mass consumption). Its success was premised on its ability "to regulate distribution without jeopardising profitable accumulation by increasing wages above the increase of productivity".59

A new neo-liberal economics in the post-Fordist period provides the framework for new and flexible forms of state regulation appropriate to the new mode of accumulation which together are meant to provide the basis for another long wave of capital accumulation. The application of microtechnology enables flexible and specialised production to replace Fordist standardised mass production, and the development of information intensive industries such as telecommunications and molecular and bio technology are earmarked to be the growth industries of the twenty-first century. Economies of scale will be replaced by economies of scope.60 The development of new technology, however, is expensive and business seeks to counterbalance the cost with a corresponding reduction in the cost of labour. Continuing profitability is

60 Ibid., p. 114.
therefore premised upon decentralised wage bargaining, flexible work practices, productivity agreements at the enterprise level and the segmentation of the workforce. The destatification of labour relations, deregulation, privatisation and adherence to free market principles are characteristic of the new regime of domination.61

Holloway provides a useful case-study of the transition from a Fordist to a Post-Fordist regime using British Leyland as an example of the Fordist pattern of production and Nissan's factory in Sunderland as the Post-Fordist model. He outlines the transformation of the militant, mass production worker, protected by the mutuality agreement (acceptance of new technology and oppressive assembly line techniques in return for increased wages), into a new flexible, skilled and responsible company man whose interests align with those of his employer. Holloway argues that the transformation was sparked by a breakdown in the trade off between worker frustration and higher wages which resulted in increased labour market instability. This combined with a contraction of the market and loss of profitability which led to the search for new forms of domination and accumulation.

Changes in management strategy for dealing with labour unrest in the transition period included breaking the power of shop stewards and threats of factory closure which eventually led to the reassertion of management's 'right to manage'. New management strategy was complemented by Thatcher's new style of government which, like management, sought to reassert government's 'right to govern' without the encumbrance of trade union power. Ruthless government suppression and growing unemployment together with tough management strategy

achieved the pacification of workers and by the time Nissan built its new factory in the north of England in 1986, it was able to select workers and a type of union representation which "assisted rather than challenged managerial authority". The new management strategy, which also includes just-in-time production requiring delivery of component parts 'just in time' for inclusion into the finished product, mean increased instability in employment levels outside the new factory. Component sub-contractors in this system, known in Japan as the kanban system, are often totally dependent on orders from the larger corporation and increasingly prefer to employ contract labour which can be varied in accordance with fluctuating orders. This system not only provides a buffer for large corporations, with sub-contracting firms taking the economic brunt in times of recession, but to the growth of a 'core' of privileged full time employees and a periphery of transient, contract workers and a segmented labour force.

Operating within the framework of the Reformulation, Holloway's attempt to exemplify a regime of accumulation in transition finds a corresponding transition in the regime of domination in Thatcher's approach to politics. He draws parallels between changes in the pattern of management at the level of production and at the level of the state. Management and the state, he says, are two sides of the same coin. Management requires that the state provide an appropriate environment for continued profitability and the state equally depends on the successful accumulation of capital for its own income. Both require the continuing and successful exploitation of labour, and responses of both are shaped by the persistent struggle at the levels of production. Says Holloway "since management is closer and more responsive to the labour process, it is not surprising that

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trends in political development should be foreshadowed by trends in management".63

Holloway has usefully used the Reformulation as the basis for his critical analysis of the interlinkages between the regimes of domination and accumulation in Britain. In Australia Mathews has eschewed a theoretical analysis and chooses to use only the Fordist/Post-Fordist paradigm as the basis for his periodisation to argue for a new regime of flexible production. Unlike Holloway, who is concerned to show how the new era of post-Fordism is likely to result in a reassertion of capital's right to manage and a more authoritarian political regime,64 Mathews argues for a politics that moves beyond regulation and redistribution and encompasses a new "politics of inclusion", with the state as "an active agent ... enabling all people to participate in the shaping of their world".65 Unions and social movements generally, he says, must be able to participate directly in accumulation strategies and in wider social issues. Self-activity will break with the mass conformity of Fordist politics and facilitate an environment conducive to the formulation of "wide-ranging 'accords' or agreements". In this somewhat utopian vision, there will still be a role for the state, not as an authoritative 'sovereign', but to oversee the negotiation and implementation of these agreements. It will thus become the "association of associations".66

Mathews argues that the Hawke government's Accord was a fore-runner of this type of 'associative democracy' because it took wages policy beyond sectional interests.67 Associate Democracy, he says

63 ibid., p. 160.
64 ibid., p. 163.
66 ibid., p. xv.
67 ibid., p. xv.
has the advantage that it describes a coherent set of policies tied together by their common emphasis on the goal of democratization, and a common strategy that calls on people to achieve change collectively, through their own organizations. It explicitly counters illusions that a new social order can be 'delivered' by a political party or leader acting on our behalf.68

This concept builds on the notion of strategic unionism outlined in the ACTU/TDC's *Australia Reconstructed*, which argues for trade unions to move beyond a narrow focus on wages and conditions, to develop centrally coordinated goals and integrated strategies and for increased and informed participation in tripartite bodies.69 This is really an extension of a longer concern with the health of the Australian economy dating back to 1979 when the ACTU began to negotiate a social contract with the ALP70 and in 1982 when the ACTU initiated a mini-summit between representatives of the Fraser government, the CAI and themselves to try to reach a consensus over the management of the looming recession.71 The Accord agreement, *Australia Reconstructed*, *The Global Challenge* and *Policies and Prospects for the 1990s* were all attempts by the labour movement to maintain an alignment of union goals with the wider economic context. The congruence of the ACTU's strategy and Mathews' work cannot be overstated. Mathews' work has been widely read and supported by the Australian Trade Union movement.72

Mathew's work has, however, generated a plethora of critiques from Australian academics, which have usefully been brought together by

72 *Tools of change* for example is recommended reading by the Australian Trade Union Training Authority and his work generally is representative of other ACTU writers such as Laurie Carmichael and Max Ogden.
Bramble and Fieldes. These critiques generally cast doubt on both the validity of the periodisation and the interpretation of the changes themselves, and seek to show that the use of new technology does not necessarily translate into differentiated markets, flexible specialisation and co-determination. They argue that mass markets have not declined, despite diversified demand for high quality niche goods, that new technology has been used to cut costs and improve quality, undermining rather than enhancing industrial harmony, and strategies for worker participation in decision-making such as quality circles have been shown to be little more than strategies "to achieve a full sixty minutes work each hour by each worker.74

Brambles and Fieldes draw upon the work of people like Hyman and Williams et al who stress the unacknowledged, but fundamentally asymmetrically relationship between capital and labour and the problems this poses for proponents of the new era of Post-Fordism in Australia. Williams stresses the importance of remembering that competition necessitates the replacement of labour with capital,75 and Hyman similarly argues that "flexible specialisation can constitute a human development only if liberated from the dominance of capital".76

It is Flew's critique, however, which drives home the point. He argues that the political unionism typified by Mathews does not recognise the class nature of institutions, seeing the structural dominance of capital merely as a constraining force on the ability of labour to pursue its interests. Mathews thus loses sight of the central issue of why capital

74 Ibid., p. 7.
seeks to exert control in the labour process. Flew goes on to argue that the problem is that the labour movement's ability to exercise power in the interest of workers is constrained by capital's continued control over the means of production, so that reforms will tend to be partial and contradictory.\textsuperscript{77}

These oversights reveal the lack of depth of the theoretical approach taken by Mathews. This superficiality is further exemplified by his dismissal of Thatcherism as a neo-Fordist strategy of the new right which he says typifies a "more intense Taylorisation of work, utilising the surveillance and control capacities of computerisation, out-sourcing of production, more intense protection of markets".\textsuperscript{78} Neo-Fordism for Mathews is a response to the breakdown of Fordism and is associated with increased authoritarianism at the level of the workplace and with deregulation and free market policies at the level of the state, but for him it is but a transition period to a Post-Fordist era which is to dispense with the outmoded inefficiencies of Fordism and encompass the new paradigm of Associative Democracy. New social movements are to give birth to this new paradigm and will inject new life into Social Democratic parties which will harness these energies to create a new polity and a new national vision.\textsuperscript{79} This unproblematic transition from one regime to another eschews any analysis of why labour market deregulation and free market policies come in to being or of the long term consequences. This lack of theoretical rigour has profound consequences for prescriptive analysis.

Burawoy's concept of production politics, or 'factory regimes' is useful

\textsuperscript{78} John Mathews (1989a), p. xiii.
\textsuperscript{79} Ibid., p. xv.
here in that it links the organisation of work to the state. In this respect his theory bears striking resemblance to the Reformulation, but although his work too is informed by the French Regulationists and by Aglietta in particular, he diverges in a number of significant ways. He examines the interrelation of reproduction at both levels of production and the state building on Marx's analysis of the coercive nature of production politics (which Burawoy calls market despotism), but unlike Marx, he develops the idea of political apparatuses of production. That is, he treats the labour process and the political processes of production as analytically distinct. Whether they are unified or separated provides the basis for his periodisation of capitalist production.

The introduction of social insurance legislation, which guaranteed minimum wage levels, says Burawoy, broke "the ties binding the reproduction of labour power to productive activity in the workplace". At the same time the state modified managerial domination and exploitation through the legalisation of trade unions and collective bargaining which effectively carved out an arena of autonomy within which reproduction could occur. At this point management could no longer rely upon the whip of the market to coerce worker compliance but had to foster compliance through persuasion. This marked the transition from a despotic regime and unity in the reproduction and politics of production to a hegemonic regime which was characterised by their separation. The separation of reproduction from the production process helped to resolve the crisis of profitability and to regulate conflict, but it also laid the basis of a new crisis of profitability.

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80 M. Burawoy (1983) and (1985).
The international mobility of capital now threatens collective labour and is leading to a new despotism built on the foundations of the hegemonic regime. That is, workers face the threat of losing their jobs ... as a result of threats to the viability of the firm. This enables management to turn the hegemonic regime against workers, relying on its mechanism of co-coordination of interests to command consent to sacrifice.84

This marks the advent of a new hegemonic despotism where management attempts to undermine the hegemonic regime it holds responsible for loss of profitability while nurturing the concept of worker co-operation. Burawoy argues that hegemonic regimes differ across nations depending upon the extent and character of state intervention. Moreover "skill, technology, competition among firms and resistance all give rise to variations of regimes within countries".85 Burawoy illustrates his argument by showing how constraints placed on accumulation in the U.S. by the hegemonic regime undermined international competitiveness, whereas in Japan the constraints were not so great, a factor which meant that "the hegemonic regime gave capital greater room to maneuver (sic)".86

The utility of Burawoy is that he, unlike the Reformulationists or Mathews, reveals a disharmony between management and the state and shows how management seeks to break what it conceives to be a nexus between worker demands and state action.

While retaining the relevance of this, it is equally important to remember the value of Holloway's examination of the consequences of an accommodation between management and workers. Of less value is

84 Ibid.
85 Ibid.
86 Ibid., p. 602.
Holloway's attempt to draw linkages between the regimes of domination and accumulation within the framework of the Reformulation. He does not overcome the criticism that the relationship is merely descriptive. Although he is convinced that there is a correspondence between the differing forms of value production and regulation, in the end he, like the Reformulation theorists themselves, merely identifies the simultaneous co-existence of these two forms without engaging in any analysis of why this should be so.\(^87\) Class struggle falls into a type of structural determinism with class struggle reduced to little more than a modifying influence within the limits of the structural constraints imposed by the regime of accumulation.\(^88\)

Jessop is useful for bringing class struggle back in to this analysis. Capital accumulation, he says, is the result of changing patterns of class relations as classes struggle within a framework developed by the value form. Value form is defined as the social relations (which include changing patterns of class relations and class struggle), that define the form of capitalist development. These social relations include those involved in the circulation and production of commodities and the commodification of the labour process.\(^89\) This expands upon Marx's definition of capitalism as a social relation and allows Jessop to develop the concepts "accumulation strategies" and "historical blocs", with the latter directly aligned with the concepts of Fordism and Post-Fordism.

Jessop argues that the value form determines the parameters within which accumulation can occur but is modified by the struggle over wages and conditions which in turn is shaped by factors outside the value form.

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\(^{89}\) B. Jessop (1990), p. 197.
Although this definition of value form defines the parameters of capitalism, it is necessary to move beyond this in order to examine variations across different capitalist economics. These differences are explained by the extent to which an economically dominant class or fraction of capital is able to claim economic leadership won through general acceptance of an accumulation strategy (economic hegemony). This general acceptance provides a stable framework for accumulation, but it is a framework nonetheless within which competition and conflict still occur. The achievement of general acceptance requires concessions from the hegemonic fraction, but whichever fraction is dominant it "must ultimately be compatible with the continued valorisation of industrial capital". This is crucial says Jessop, because the decline of industrial capital produces a crisis of accumulation which can only be resolved by developing a new accumulation strategy.90

Changes at the level of the state are required to complement a new accumulation strategy. It is important to note that there is never only one possible strategy, but various possible strategies which may engender different degrees of support. Countervailing strategies will also exist which is why economic domination and the ability to reinforce economic hegemony is vital. The successful strategy will encompass a variety of tactics to ensure its acceptance. These confer a flexibility essential for validation which often occurs post hoc, to manage competing interests and to secure compromise. This flexibility also therefore creates an arena for struggle which impacts upon the political and ideological structures themselves.91

90  Ibid., p. 200.
91  Ibid., p. 205.
The combination of economic hegemony and changes in the form and content of state intervention constitute a hegemonic project. The state provides structural privileges to the economically dominant fraction of capital "provided that its strategic orientation and its relation to accumulation prove adequate". The success of a hegemonic project moreover "will depend upon the flow of material concessions to the subordinate social forces and thus on the productivity of the economy".92

Like the Reformulationists, Jessop finds a correspondence between regimes of accumulation and class domination, but moves beyond them with his argument that the imperative of state action is to maintain the health of the economy. But although he can explain *why* the correspondence exists between accumulation and domination, he cannot really explain *how* this occurs, falling into rather vague accounts of the importance of the ability of the dominant fraction of capital to reinforce economic hegemony.

Jessop and the Reformulationists both use the concepts of Fordism/Post-Fordism as a basis of their periodisation, and both identify a correspondence between regimes of domination and accumulation. McEachern, however, identifies the critical relationship as being between patterns of representation and intervention.93 He argues that there is no obvious correspondence between any given regime of accumulation and domination. "Nobody under capitalism can know, with any certainty, what the best policy is to solve the class problems of capital".94 The congruence of action and consequence can be identified, but only in the broadest of

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terms. This indicates that the whole issue needs to be redrawn. It is, he says,

only on the basis of an analysis of ... the linked sequence of interests, policy suggestions, state action and the pattern of class consequence that it is possible to understand how it is that, and the extent to which, state action tends [or has tended] to advance and protect the class interests of capital as a whole.\textsuperscript{95}

By moving from the general to the particular, and from a theory of the state to a more dynamic theory of political regime, McEachern stresses the importance of examining the interaction between classes, between classes and the state and the role the state takes in reordering those relations. The continued search for new patterns of economic growth is the context within which changes in these relations occur. The state acts in response to the failure of business to generate new avenues of growth (and therefore employment), to centralise and coordinate the organisations of labour and business so as to better manage conflicting demands and to facilitate change.

In the 1980s strategies designed to restructure the Australian economy, particularly the Accord, were instrumental in reordering these relations in Australia. McEachern argues that the apparent alliance between the Labor Government and the ACTU provoked hostility on the part of business, which felt that its hitherto privileged access to government and bureaucracy during Fraser’s regime was being challenged by the ACTU. But the new strategy gave primacy to business profits, so despite their political failure to break the Accord relationship between government and unions, in economic terms they were not required to concede very much.

\textsuperscript{95} Ibid., p. 32.
The political failure, however, resulted in a fracture of the organisation of business and led to the establishment of the Business Council of Australia, whose primary role was to represent the needs of big business in future negotiations with the Hawke government.96

McEachern's approach and this case study, are important for a number of reasons. Because he builds upon the state debate, he retains the relevance of what was identified "in the discussion of the relationship between classes and the state on the basis of the degree of autonomy which the state has from class".97 He also encompasses Burawoy's analysis of business' belief in and desire to break a nexus between state action and the demands of labour, and like Jessop he recognises the primacy given by the state to the health of the economy. But he does more. He shows that, as long as the Australian government avoids confrontation with the business sector, and while they and the ACTU continue to give priority to the maintenance of private profit, political defeats for business will be economic wins. The strategic primacy given to business profits, moreover, resulted in the increasing marginalisation of labour, even under Labor Governments in an ongoing period of recession.

The Accord as a strategy to generate growth failed because in the last instance it was a strategy based on the hope that business would reinvest profits in new value-added manufacture. Grants for research and development and generous tax concessions were the only mechanisms adopted to encourage this, and they too failed. Apart from what this says about the failure of deregulatory policies to generate growth (financial deregulation facilitated speculative investment), what is important in this

97 Douglas McEachern (1990), p. 34.
context is the role government played in reorganising the way in which big business was politically represented.

McEachern does not attempt to identify any specific historical blocs, hegemonic regimes or projects, nor does he want to be constrained by the search for a congruence between accumulation and rule. Despite this, he manages to succeed where the others have failed. Like Jessop, McEachern identifies the functional necessity on the part of the state to maintain the health of the economy. But this only partly explains the correspondence between accumulation and rule, the missing ingredient in Jessop's analysis is the context within which the state will act. Business failure explains the necessity for state to act in the interests of business as a whole, but McEachern also finds the mechanism by which this occurs - the organisation or reorganisation of business.

In the case of the Accord the changed pattern of class/state relations was apparent in the reorganisation of business in order to better respond to a new political context. In the case of the MFP government took action firstly because business failed to generate new growth despite increased profits, and secondly because business failed to produce a collective answer to the proposal. Having set up the Australian Domestic Committee and lobbied for business interest, government had sat back and waited. Either the lack of business experience in this type of intra-class collaboration or the lack of business interest altogether compelled further action by government in the establishment of MFP Australia Research to organise a business response. The result was the formation of think tanks to provide a forum for industry collaboration. The marginalisation of unions was at first justified on the basis of the need for secrecy to protect intellectual property, but as time went on unions
jumped on board to support the project, despite their inability to shape it in any way. They justified their support on the basis of the need to get on side with business which is, as the Reformulation of state theory reveals, a justification with ongoing negative consequences for the movement as a whole.

Conclusion

The purpose of this chapter has been to provide a way of thinking about the Japanese proposal to build an MFP in Australia and to help understand Australia's response.

Japan's motives for proposing the MFP can only be understood clearly in the context of shifting global social relations. As America's internal constitutive principles began to shift in response to low growth at the end of the long boom, so too did the principles which shaped those relations in the post-war world. In this state of flux Japan resisted being drawn into a pattern of relations which would undermine its own constitutive principles, while Australia continued to align itself with the new order at the same time that it sought a new economic relationship with Japan. Australia, in this context found itself unequal to the task. The different theoretical positions - historical materialism applied to international relations and the two strands of the state derivation debate, guide analysis throughout. Chapter 3 explores Japan's lack of fit with America's principles as it emerged into the global spotlight. Chapter 4 shows how MITI came to deal with that and introduces the MFP proposal in that context. Chapter 5 shows how the changes to the global environment impacted upon Australia, the failure of Australian business to generate new growth and the country's request to Japan for investment
assistance. Chapter 6 deals with Australia's attempt to organise a business response to the proposal and chapter 7 its inability to step outside its established way of thinking in order to take advantage of changing circumstances. Chapter 8 explores the exclusion of labour.
CHAPTER THREE

JAPAN'S SEARCH FOR A NEW GLOBAL ROLE

Introduction

Although the Japanese economy has, throughout the 1990s, lurched from one economic disaster to another, and the boom years of the 1980s appear to be little more than a fading memory, it was in that decade and that context that the MFP proposal was conceived. It was also the decade when Japan's economic power was at its peak and the country was under significant pressure to take a new role in global affairs. Japan's response to those pressures must be understood in the context of the breakdown of the principles that underpinned growth during the post-war boom. Gordon, for example, argues that a new set of guiding principles have not yet been fully established and "what we have been witnessing is the decay of the post-war global economy rather than the construction of a fundamentally new and enduring system of production and exchange".¹ This chapter examines some of the major factors which shaped the global economy in the post-war world and the impact of those factors on Japanese economic and foreign policy to show how uneasily Japan fitted into the global system. By engaging with the debates which evaluated both the pressures for and constraints inhibiting the emergence of a Pax Nipponica in the context of a weakening U.S. economy, it is possible to see how the tendency of western analysts to critique Japanese policy from within a liberal framework, inhibited a broader evaluation of Japan's

dilemma. By examining the constraints and pressures within which Japan had to frame policy, it becomes clear that some influential Japanese policy makers saw that Japan's only course of action was to attempt to transform the milieu within which world trade occurs, so that it conformed with its own internal constitutive principles.

There were two major objectives underpinning the design of the post-war world order. The first was the creation of a multilateral trading system. Determined to eliminate as far as possible monetary and financial problems which had plagued international trade and led to so much conflict, the United States sought, under the terms of the Bretton Woods agreement, to make global trading as open as possible via monetary aid, investments, the transfer of industrial plant, technical skills and business know-how. Industrial capacity, accumulated investment funds and trade surplus were the source of U.S. authority and power. Indeed at the end of the war the United States was the only country strong enough to tackle the problems of world capitalism and American post-war planners acknowledged that the country had to take responsibility for the construction of a workable global trading system. Gardner says they:

considered that the United States, as the world's foremost economic power, should bear the primary responsibility for reconstructing a freely flowing system of international trade. Perhaps most important, they were prepared to devote a considerable amount of American wealth, influence, and energy toward the achievement of that end.3

As suggested in the previous chapter, however, the decision to create a multilateral trade order had as much to do with making the world safe for

1 J. Kolko and G. Kolko (1972), p. 12. They argue that America's primary objective was to make the world safe for American capitalism. They say that "virtually synonymous with multilateral trade, in Washington's definition, was greater American economic activity and expansion".
American capitalism as taking a leadership role in global affairs. American internationalists were only able to overcome the objections of their anti-internationalist opponents by putting the goal of full employment at the heart of their strategy. They believed they could achieve both a multilateral trade order and sustained full employment by running an export surplus, but to do this they would need to assist with post-war reconstruction in Western Europe and Japan. America's plan was to assist those countries, both through direct U.S. investment and by absorbing their exports, to become competitive enough to trade in an open world economy. Despite the paradoxical quality of their strategy, whereby their own export surplus depended on expanded imports from these countries, their own objectives would be met because, as Block argues:

> a world order in which the flow of goods and capital is determined largely by market forces will maximize the advantages for the country with the highest level of technical development and with the most enterprising and strongest firms.\(^4\)

To preserve multilateralism, access to markets was guaranteed by the General Agreement on Tariffs and Trade (GATT, now the World Trade Organisation), which broke down the pre-war tendency to bilateral tariff preferences.\(^5\) Prestowitz, however, argues that GATT only worked because the U.S. accepted, as the necessary cost of global leadership, agreements that permitted their trading partners to implement active state policies, including tariffs, to create industry and promote industry development.\(^6\)

The second major objective underpinning the post-world order was the containment of communism. Kolko argues that the U.S. quickly realised that if it were to protect the interests of American capital it would have to |

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\(^4\) Fred Block (1977), p. 3.  
preserve the remaining capitalist economic and class systems of the world. In order to achieve this, American internationalists had to convince their anti-internationalist opponents of the need to commit the country's resources to the achievement of this goal. The opportunity to do so arose in 1947 with the intensification of the Cold War on the one hand, and on the other, the articulation of the Truman Doctrine which pledged to fight communism everywhere.

In other words, by both economic and ideological measures the U.S. was at once able to ensure its own global supremacy and establish a logic for continued growth. Block calls this logic 'Military Keynesianism', but it was Keynesianism without national planning. Instead, government spending on defence would stimulate the domestic economy and provide employment. It was, says Block, a strategy which was entirely "consistent with maximum continued freedom for domestic capitalists". At the international level it would deflect the reemergence of nationalist sentiment and the associated threat of a closed trading system and at the national level, through huge increases in defence spending, it would create economic growth and employment. The longer term effects of the program at the international level were aid recovery in western Europe and the development of Asian-Pacific countries which would ultimately challenge America's dominance of world trade. The longer term national effects would be continued and increasing commitment to military spending in order to absorb the expanded industrial capacity.

Other important elements of post-war reconstruction were the establishment of the International Bank for Reconstruction and

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8 Fred Block (1977), p. 83.
9 Ibid., p. 107.
10 Ibid., p. 108.
Development (the World Bank) and the International Monetary Fund (IMF). The former was to facilitate reconstruction of war ravaged economies, and the latter was to ensure an adequate supply of investment so that countries could remove credit controls without experiencing drops in income and employment. By virtue of its voting power, however, America was able to limit access to the resources of the Fund and tighten lending provisions so that drawings would be tied to deflationary policies, and Britain insisted that the Bank's role should be to encourage private investment by providing guarantees rather than making large loans. As a result, developing countries, rather than being able to implement policies to promote national goals, became dependent upon American private investment which was oriented to supplying the first world with raw materials. An international division of labour was thereby established, with the developing countries largely supplying cheap raw materials and labour to the more advanced industrialised countries.

Japan, under U.S. occupation after the war, was quickly reorganised in accordance with these new plans. The restoration of Japanese capitalism was first and foremost directed against communism both regionally and within Japan itself and the reconstruction of Japanese industry to prepare for the Korean war provided both a market and further rationale for increased military expenditure in the U.S. The old Zaibatsu, family controlled business cartels, supposedly broken up after the second world war, were largely restored and utilized to hasten preparations for the Korean war. Halliday and McCormack argue that militarization

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11 Ibid., p. 111.
15 Only the Zaibatsu affiliate companies were restored and expanded for this purpose. The holding companies were broken up and the Zaibatsu family cartels never regained their economic power. Michio Morishima (1982), p. 159.
facilitated rapid economic recovery and growth in Japan, and "solidified the position of Japan as America's counter-revolutionary ally in East Asia".16

Despite the introduction of formal liberal democratic institutions, including the establishment of legislative authority, the legalisation of trade unions, the constitutional right to form political parties and the enfranchisement of women,17 Japanese capitalism developed after the war in a way which differs fundamentally from that in western societies. Western capitalism is characterised by an arms length relationship between the state and the private sector, with business usually interpreting any attempt to regulate its activities as intrusive. In Japan, however, there is a coherence of interests between the two sectors which has a long history and goes some way in explaining the so-called 'economic miracle' which that country experienced in the 1970s and 1980s.

Okimoto argues that Japan developed a unique combination of free market and state planning:

MITI bureaucrats do not regard the market as sacrosanct. They feel fewer ideological inhibitions about trespassing on the preserve of the private sector than their U.S. counterparts. Although capitalism is considered the best economic system yet devised, its imperfections are clearly understood. MITI officials realize that the market mechanism cannot be expected to generate economic outcomes that are always in the nation's best interests. To further the collective good, unfettered market forces need to be harnessed and guided by the visible hand of the state.18

Japan's history of state-guided growth dates back to the Meiji Restoration in 1868 when the country opened its doors to foreign trade after 200 years of isolation. It realised that its western trading partners were technologically more advanced and that Japan would, despite its limited land mass and resources, have to engage in a concentrated period of 'catching up'. The development of Japanese capitalism was led by the process of state formation during this period. Formed between the abolition of feudalism and the ascendency of capitalism, the early Meiji state (1868-1885) was not constrained by the structural power of capital. Rather than being shaped by the needs of early capitalism, the absolutist Meiji state was shaped by the resistance of feudal powers and the subsequent destruction of the system of landholding and feudal privileges. A system of private land ownership and state owned factories was introduced to secure a stable revenue base for the state and the establishment of a new army and police force provided its security and conferred upon it legitimate control of violence. That these were also prerequisites for the development of capitalism was accidental, says Woodiwiss, who argues that "Japan became capitalist almost by default". As capitalism developed, state action became more constrained, but its unusually large degree of autonomy was not fundamentally challenged until the post-war occupation.

The Meiji state abolished feudalism, centralised the administration and developed a 'plan-rational' approach to hasten modernisation. It gave less priority to how modernisation was to be achieved than to uniting the country behind that larger goal. It is important to note that they wanted to build a modern nation comparable with, not compatible with the west.

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Morishima says "[t]he Japanese have ardently desired to retain their culture, their way of life, the specific relationship between superior and inferior, and their family structure". That desire was embodied in the phrase *wakon yosai* (Japanese spirit with Western ability).\(^22\)

There have been five stages since the Meiji Restoration when the administration attempted to unite the country behind national goals, (all within the overarching goal of catching up with the west). These were:

1. increase industrial production (*shokusan kogyo*)
2. rich country, strong military (*fukoku-kyohei*)
3. expand productive capacity (*seisanryoku kakaju*)
4. promote exports (*yushitsu shinko*)
5. full employment (*kanzen koyo*)
6. high-speed growth (*kodo seicho*)\(^23\)

Johnson says these sorts of national goals are indicative of the emergence of the "developmental, plan rational state" in Japan where activity is oriented to industrial policy. He contrasts this with the United States which, he says, adopted a "regulatory, market-rational path" oriented to foreign policy.\(^24\)

Because Japan's major commitment was to the effectiveness of outcomes rather than the method by which they would achieved, it moved easily from a state-centric approach to a more collaborative arrangement with private enterprises. It was able to encourage these companies to fit in with national development goals because they had been favoured

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\(^22\) Michio Morishima (1982), p. 52.


\(^24\) Chalmers Johnson (1982), p. 20. This orientation to foreign policy must be understood in the context of America's attempt to reshape the world trading system to conform to liberal principles.
recipients of state-owned industrial enterprises established during the early Meiji years.\textsuperscript{25}

As part of a process of retribution against both government and civilian bureaucracies for their part in the war, the zaibatsu was broken up by the Supreme Commander for the Allied Powers (SCAP). These business empires were reformed into the keiretsu, but this time as industrial conglomerates based on ties with banks rather than family holdings.\textsuperscript{26} Post-war reconstruction focused on speedy economic recovery and the bureaucracy was reorganized to achieve that goal. The pre-war Ministry of Commerce and Industry and the Board of Trade were reorganized into the Ministry of International Trade and Industry (MITI).\textsuperscript{27} MITI was granted power through the Foreign Exchange and Foreign Trade Control Law to control international trade, especially technology transfer and joint ventures.\textsuperscript{28} By this means MITI could target industries for development and it did so through tariffs, import quotas and investment controls. To offset the stagnating effect of tariffs they gave financial assistance to selected firms to stimulate competition.\textsuperscript{29}

During the period of US procurements for the Korean war and for foreign aid, Japanese firms could not often get access to investment capital as fast as they needed it to keep up with orders. Japan's response to this problem was the establishment of a system of overlending through the city banks and the government-owned Bank of Japan, and the creation of other government-owned 'specialist banks' such as the Japan

\begin{itemize}
\item \textsuperscript{25} Ibid., p. 23.
\item \textsuperscript{26} The SCAP directive to break up the zaibatsu was based on the western assumption that banks and industry were separate entities and therefore appropriate policies were not put in place to prevent their re-emergence based on banks rather than family holding companies. Ibid., p. 174. See also pp. 205-206. Also Jon Halliday (1975), pp. 189-190.
\item \textsuperscript{27} Chalmers Johnson (1982), p. 191.
\item \textsuperscript{28} Ibid., pp. 194-195.
\item \textsuperscript{29} Sheridan Tatsuno (1986), p. 24.
\end{itemize}
Development Bank and the Export-Import Bank.\textsuperscript{30} City banks were encouraged to overlend to industry, but their ability to attract deposits was severely curtailed which meant they were heavily dependent on the Bank of Japan as the bank of last resort. This gave the Central Bank the ability to steer investment by designating loan priorities and by making funds available through the specialist banks.\textsuperscript{31} Loan priorities targeted the largest firms which had the ability to generate the greatest efficiency. This in turn created a dual structure of production with a small number of giant firms and a multitude of small sub-contracting firms acting as a buffer for the former against the effects of recession. MITI came to use the Japan Development Bank and Export-Import Bank with great effect in its development strategies and the system of bank overlending freed businesses from the pressure of responding to the short-term profit requirements of shareholders.\textsuperscript{32}

Industrial expansion was initially achieved by designating priority growth areas, restricting the inflow of foreign goods and services to protect infant industries, discouraging foreign direct investment, regulating technology flows and by promoting export trade.\textsuperscript{33} Since Japan also encouraged a very high level of personal savings, mainly through an inadequately funded welfare system, the financial resources were readily available within Japan itself.\textsuperscript{34} Between 1950 and 1973 Japan's gross domestic product (GDP) grew at more than double the worldwide growth rate of the

\textsuperscript{30} Chalmers Johnson (1982), p. 200. SCAP's Ambassador Joseph Dodge in 1947 terminated reconstruction finance loans through the Reconstruction Finance Bank and ordered the Japanese government to balance its budget as part of his strategy to control inflation (The 'Dodge Line'). Reduced access to credit put an end to the post-war priority of rapidly expanding production. Dodge subsequently authorised (in 1949) the establishment of the Japan Development Bank and the Export-Import Bank and created a single exchange rate. See also Wm. R. Nester (1990), pp. 107-109.


\textsuperscript{32} Chalmers Johnson (1982), p. 204.


same period. By 1976 it was contributing 10 per cent to the world's economic output on 0.3 per cent of its land and with 3 per cent of its population. It had begun to dominate world markets in key areas such as motor vehicles, computers, steel and shipbuilding, as well as other diverse areas such as sound equipment; camera, lens and optical production; watches; bicycles and pianos.

Japan had begun to broaden its industrial base into electronics as early as the 1960s, facilitated by MITI's control of technology licensing. By this means it was able to purchase cheaply R&D developed in other countries at huge cost. It had also begun to promote information-intensive industry, but this relatively slow process of change was given sudden impetus by the two oil shocks of the seventies which were to have far reaching economic and political repercussions for Japan.

The sudden upsurge in the cost of oil undermined the basis upon which post-war Japan was built. The country's economy was based on energy intensive industry and higher oil costs eroded the advantage it had in cheap labour. Japan also became painfully aware of its vulnerability in relying almost totally on imported fuel. Severe environmental damage, the appearance of contamination-related diseases, noise pollution and public demand for a more regulated approach to growth, together with the fall-out from the 1973 oil shock all began to threaten MITI's control over industrial expansion. MITI suffered a further loss of legitimacy in 1979

38 Wm. R. Nester (1990), pp. 290-291.
40 MITI's post-war growth strategy had been energy dependent and when access to oil became threatened and prices increased Japan's vulnerability was exposed.
with the revision of the Foreign Exchange and Foreign Trade Control Law which, by giving it the power to control imports, had provided the legal basis of its power since the war.\footnote{Chalmers Johnson (1982), pp. 217 and 266.}

MITI responded with a nation-wide drive to conserve energy, a public education program, increased expenditure on research and development, programs into energy conservation and alternative energy systems and financial inducements for business.\footnote{Shibusawa Masahide (1984), p. 84.} Although it had been stripped of its legal powers and now had to rely on its powers of 'administrative guidance' to steer industrial growth, those powers were still considerable because business still largely accepted the benefits of coordinated economic activity.\footnote{Chalmers Johnson (1982), p. 274.}

MITI also reformed both its internal structures and its general approach to policy, adopting a more cosmopolitan attitude to the liberalisation of trade which it viewed as an opportunity to restructure the economy.\footnote{Ibid.} It was in this context that MITI began to phase out smokestack industries and to develop knowledge intensive industries. These events produced a revolution in Japanese industry and technology and vastly improved export competitiveness, culminating in Japan's huge trade surplus which triggered a scramble in other advanced industrialised countries to restructure their economies in order to stay in the race.

Although the immediate impact on Japan of the oil shocks was economic, Japan was to learn a hard lesson about the need to engage as an independent force in global political diplomacy. Despite efforts to diversify its access to oil by investing heavily in the Middle East and other overseas
oil development projects, Japan was almost totally reliant on European and American oil companies for the supply of its energy. Japan had no diplomatic relations with Israel or military ties with the Arab countries because it was aligned with America in its diplomatic and strategic relations, therefore its continuing access to this vital resource seemed suddenly very precarious. As a result Japan was not designated as a 'friendly country' when oil embargoes were being placed. This shocked Japan, says Masahide, because "even though it was buying a markedly greater volume of Arab oil than Britain or France, it was clearly not regarded as having any importance, either as a market or as a political partner". Japan set about remedying this situation as quickly as possible and within weeks had secured Saudi Arabia's agreement to assist Japan in becoming designated as a 'friendly country', but at the cost to Japan of a petrochemical plant, steel mill and railway construction in Saudi Arabia, as well as pledging a $US280 million loan to Egypt for the reconstruction of the Suez Canal.

Apart from its experiences in the middle east, Japan was confronting growing anti-Japanese sentiment among its south-east Asian neighbours, particularly in relation to its aid and foreign policies and the behaviour of its multinational corporations. Political investment was often made specifically to prop up anti-communist regimes in the region, particularly in Indonesia, South Vietnam, Taiwan, South Korea and the Philippines as well as India and Pakistan, and 'aid' usually came in the form of high interest loans tied to the purchase of Japanese goods. The result of Japan's foreign aid and trade policies was a five-fold increase in Japanese

46 Ibid., p.79.
47 Ibid., p.82.
48 Ibid., pp.44-45.
49 Ibid., p.30.
exports to the region (from $838 million in 1960 to $4 billion in 1970) and a massive trade surplus.\textsuperscript{50} In relation to Japanese MNCs, Nester says that in South East Asia they were:

\textit{often singled out for strong criticism by the host country. Standard criticism on MNCs - that they transfer prices by manipulating account books, disrupt the balance of payments by importing high priced intermediate goods, soak up indigenous capital and repatriate it, do not transfer management positions, technology, or capital, drive out local entrepreneurs, corrupt and co-opt local elites, and so on - \{were\} often vocalised against Japanese MNCs.}\textsuperscript{51}

Japanese MNCs were also criticised for their unwillingness to 'assimilate', for exploiting indigenous labour, for pillaging the environment and for transferring polluting industries out of Japan into other countries of the region.\textsuperscript{52}

Anti-Japanese sentiment was finally given expression in Thailand in 1972 with a student boycott of Japanese imports. Demonstrations were held throughout the region for the next two years in reaction to Japan's overwhelming economic presence, culminating in student riots in Bangkok and Jakarta in 1974. Shaken by the extent of anti-Japanese fervour, the government sent the Minister of International Trade and Industry to Thailand to offer apologies and to make reparations. They offered to untie loans, reduce the trade deficit and further assist Thailand's economic development. At home the Japanese government promoted "better understanding of South-east Asia among Japanese

\textsuperscript{50} Shibusawa Masahide (1984), p. 44.
\textsuperscript{51} Wm. R. Nester (1990), p. 123.
\textsuperscript{52} \textit{Ibid.}
intellectuals and businessmen, and to work out a desirable mode of behaviour.\textsuperscript{53}

Having set out to achieve high speed economic growth, Japan began to realise with dismay that, as a national strategy, it was not enough. Their foreign relations experiences, together with the domestic repercussions from the oil crises, says Masahide, meant Japan learned the hard way that it must take political responsibility for its economic actions. It also learned that it must develop an appropriate political role to protect its global economic interests.\textsuperscript{54}

Rapid growth also began to affect Japan's relationship with the United States. By the mid 1970s the U.S. was showing a deficit in bilateral trade for the first time since the war. By the mid 1980s the total U.S. trade deficit had blown out to $150 billion, $50 billion of which was in Japan's favour.\textsuperscript{55} U.S. interest rates were high to attract money to fund its program of deficit spending (mainly on defence) which pushed up the value of the dollar and worsened the trade deficit with Japan. Attempts to lower the dollar simultaneously lowered the price of American assets which were snapped up by increasingly wealthy Japanese companies.\textsuperscript{56} The U.S. began to accuse Japan of having had a 'free ride', leaning on the protective arm of the United States while redirecting its resources to building up export competitiveness. They made retaliatory demands that Japan share the cost of defence in its region, that it fully open its domestic market to American imports to permit the reduction of the enormous trade deficit and that it moderate its policy of agricultural protectionism which was making U.S. exports uncompetitive.

\textsuperscript{53} \textit{Ibid.}, pp. 73-78.
\textsuperscript{54} \textit{Ibid.}, pp. 160-161.
\textsuperscript{56} \textit{Ibid.}, p. 333.
Japan said that the deficit was not their problem but America's. They argued that lack of efficiency and quality in American production, high interest rates and low national savings and a system which favours short term profit were to blame. Nevertheless Japan responded in a number of ways to the criticisms. Despite its constitutional commitment to contain defence expenditure to 1% of its GDP, it broke through that barrier and in 1990 became the third largest spender on defence in the world. Japan also undertook to open its domestic market. Although this process is under way American companies continue to accuse Japan of putting barriers in the way of trade. For example, the Japanese retail sector is still almost impenetrable to foreign retailers, being headed and protected by family groups with enough political clout to mitigate the effects of a more open policy. The effect for Japanese consumers is lack of competition and exorbitant prices. The Keiretsu system also works to exclude foreign competition. Apart from assured financial support from their bank, the Keiretsu also assures its member companies of a stable market. Cross share-ownership perpetuates long term relationships and companies operate on the basis of "implicit long-term contracts" in a hierarchical structure which favours long term customers.

The pressures from the U.S. combined with the expectations of the international community that Japan take some kind of leadership role in international affairs. This culminated during the Gulf War with the expectation that Japan would take a much more active role than providing money and unarmed forces. Japan's hesitant reorientation from reaction to resolution in its international dealings has spawned an
academic debate about both the meaning and outcome of that shift. For example in the early 1970s Halliday and McCormack identified a re-emergence of Japanese imperialism. Later Masahide argued that Japan's primary preoccupation was not so much with an imperialist agenda as with threats to its food and energy supplies. He says that while other western capitalist countries could either live off their own resources or "close ranks" against threats to disrupt supply, Japan's small arable land mass and its huge population makes it extremely vulnerable. Its isolation in this respect was brought home to it at the time of the oil shocks. Europeans had a shared knowledge of the Middle East which facilitated individual but co-evaluated responses. Japan was excluded from this and it is such experiences which led to arguments within Japan about the need to enlarge their definition of defence to include contributions to overseas aid and engagement in resources diplomacy. These experiences gave meaning to Japan's search for 'comprehensive security' and calls to lift defence spending.

While these calls have raised strong resistance among the Japanese people, there has been a gradual erosion of Article 9 of Japan's Peace Constitution which says:

Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as a means of settling international disputes.

In order to accomplish the aim of the preceding paragraph, land, sea and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.

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63 Ibid., p. 85.
Alagappa says that the erosion is due to an increasing realism on the part of the country's rulers, who have justified the relaxation of policies relating to nuclear armaments and the export of defence technology in terms of space exploration. In 1992, after international criticism for its failure to send troops to the Gulf, a Peacekeeping Operations Bill was passed by the Japanese Diet which allows Japan to send Self-Defence Forces abroad for noncombat service with the United Nations Peacekeeping forces. The extent to which these forces can be deployed, however, is still limited by the need for Diet approval in each instance.

Alagappa argues that Japan's primary emphasis was on its need to preserve stability in its region and, he says, it was most likely to achieve this by globalising its economy rather than engaging in what could be regarded as threatening military rearmament. It is his contention moreover that Japan is, in diplomatic matters, deprived of an independent security role, being either feared as a military adversary by its north east Asian neighbours or being inextricably linked with the U.S. from the perspective of the ASEAN countries, which aligned on the basis of neutrality.

This is an argument which is more or less supported by Vogel, Inoguchi and Bergsten who respectively, foresaw a strategic co-partnership between the U.S. and Japan; advocated a role for Japan as supporter of U.S. hegemony; and argued for a bigemony between the two nations.

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57 Ibid., p. 27.
60 Ibid., pp. 40-41.
Similarly, Masahide argued that Japan found that a combination of economic aid and cultural sensitivity was largely effective in breaking down regional barriers and moderating the effects of trade imbalances. The size of Japan’s defence budget and its commitment to the defence of sea-lanes up to 1000 miles south of Japan has resulted in some misgivings among the ASEAN countries, he says, but it is fairly generally accepted as necessary ‘burden sharing’ with the United States.72 Japan’s economic relationship with its Asian neighbours, moreover, is mutually beneficial. Economic aid from Japan enables ASEAN countries to reinforce regional cooperation.73

According to Leaver, however, the U.S. feared a Japanese challenge to its dominance and reacted defensively on two occasions. He moved the analytical focus from Japan to America and its weakening hold over patterns of geopolitical accommodation. It is through this weakness that he perceived that a possible shift in global dominance from a Pax Americana to a Pax Nipponica may have been possible.74 The first threat, he says, came in the late 1960s when the traditional U.S. trade surplus with Japan became a trade deficit. Although expanding Japanese exports was only one component of the deficit, “this reversal in the bilateral balance of American-Japanese trade was itself a major component in the mounting overall US external deficit that, in turn, eroded confidence in the fixed exchange rate system”.75 The US response (the Nixon shocks), says Leaver, was two-fold and had both a geopolitical and mercantilist dimension. The latter took the form of the 1971 import surcharge of 10% resulting in a dramatic revaluation of the Yen, and Japan’s agreement to Voluntary Export Restrictions, both of which halved Japan’s growth

75 Ibid., p. 3.
within 3 years and turned its trade surplus into a $US9 billion deficit by 1973. The geopolitical response was to "bring China back in from the cold" which, says Leaver, reminded Japan that they benefited from the "bipolar structure of international power" and effectively dampened any challenge of a *Pax Nipponica*.76

The second threat came in 1981 on the back of Reagan's stimulatory policies which included tax cuts and major increases in military spending,77 and in 1982 with the lifting of monetary constraints,78 which were all part of Reagan's strategy for America to once again "walk tall on the world stage".79 What they achieved was increased imports and foreign capital resulting in even larger imbalances in US/Japanese trade. The US response once again was to define the problem as Japan's. The Baker initiatives, better known as the 'Plaza Agreement' of 1985 had the effect of pushing up the value of the yen 80-90% against the US dollar, increasing the cost of Japanese goods and essentially propping up the dollar. Paradoxically, the huge influx of Japanese capital mitigated the effects of the Baker initiatives, keeping down the price of the Yen and allowing Japan to remain internationally competitive.80

Leaver argues that the US response to this second threat of a *Pax Nipponica* lacked any geopolitical element. This lack is of major importance because those:

moments when economic regional restructuring is in the air are precisely the times when one might expect to see geopolitical moves by major actors concerned about their future position in an uncertain world. When the successful management of the prevailing international structures looks

76 Ibid., pp. 4-6.
77 Ibid., p. 7.
increasingly improbable, and those structures are themselves uncertain in
the face of fundamental regional changes, geopolitical gambits present one
way of changing the shape of the matrix within which future short-run pay-
offs will be decided. 81

That America did not choose to exercise this option - which it could have
done by playing the "China Card" - left the way open for other powers to
shape the geopolitical environment.82

There was some debate about the possibility of Japan stepping in to do
this. Some of the International Political Economy (IPE) literature of the
time grapples with this issue within the conceptual framework of regime
theory. Along with realism, this theory puts states at the centre of
analysis because it is concerned with explaining how states cooperatively
establish rules or procedures as the means to deal with common
concerns. Regimes in this context consist of standards of behaviour
defined in terms of generally accepted rights and obligations. 'Hegemonic
stability' is an offshoot of this theory which argues that these 'regimes' are
formed under the patronage of a dominant power.83 Leaver argues,
however, that this theory rests upon a series of biases, the most obvious
of which is liberalism, apparent in the obsessive defence of "liberal
regimes' and 'orderly rules' put in place by the US during its phase of
unquestioned dominance".84 It is in consequence U.S. biased, he says, a
factor which leads many IPE analysts to eschew any recognition that
policies for post-war reconstruction were shaped as much to preserve the
prevailing set of social relations within the US as to rebuild shattered
nations.85

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82 Ibid., p. 14.
83 Ibid., p. 15.
85 Ibid., p. 19.
This led Leaver to ask, if the essence of American hegemony lay in the ability to pursue international policies that simultaneously addressed both domestic weaknesses and weaknesses confronting incumbent elites ... There is no prime facie reason why we should demand more than this when we inquire into the prospects for Japanese dominance.86

Hegemonic stability theory, according to this view, is therefore based on the assumption that there is a certain amount of 'selfless benevolence' required of a hegemon, and it is presumed the Japanese are not capable of this. But Leaver says if this assumption is not made, then Japan's economic dominance could easily be equated with global hegemony.

Cox argues, however, that a hegemon must be able to generate universal norms, which implicitly argues the necessity for creating a global system with a structural bias. There must be a set of values which are legitimised at the domestic level which in turn legitimate their extension abroad, and those domestic norms must in turn be legitimate to other nations. Japan's problem is that its own integrative principles, based on the idea of 'Japanese spirit with western ability', meant that they could never be universalised. As a consequence, Cox argues that any bid for "Japanese dominance would most likely take the form of one people's mastery over others, not of the establishment of a universally acceptable concept of order".87

Unlike liberalism which is based on the autonomy of the individual, the Japanese political tradition has generated a set of values which emanate from the Emperor. According to Maruyama, the Emperor "is the centre of

86 Ibid., pp. 27-28.
all authority and the fountainhead of all virtue" and individual authority is relative to the distance one stands from that centre. Since the Emperor's authority itself is derived from the remote past there is no concept of ultimate responsibility, and therefore Japan has a structure of power with no top, no ultimately responsible head or centre. This political tradition was particularly evident in Fascist Japan "where decisions were shaped irresponsibly by an interplay of factional influences gyrating about the centre of power". The remnants of this tradition persist in contemporary Japan where, to paraphrase Cox, circumstances, not an individual's personal ethics, dictate change.

Japan's concentric structure of power is further complicated by a hierarchical structure of status that placed the warrior class at the top and the merchant class at the bottom. Remnants of this hierarchy of status are evident in modern day Japan where warrior status has become transmuted and conferred onto the bureaucratic class while politicians bear the low status of the mercantile class, derived from their close working relationship with business. Cox argues that the subsequent low expectations of politicians from the electorate has resulted in a depoliticization of the Japanese which was exacerbated by the country's economic success. This depoliticization further inhibited the evolution of universalizable norms.

Depoliticization, however, does not begin and end here. America's cold war strategy contributed to the political paralysis of modern Japan. The cold war was principally based upon the need to prevent the re-emergence of...
of a multi-polar balance of power, and the bi-polar nature of global power suited Japan well. However, the Bretton Woods system which underpinned the rehabilitation of Western Europe and Japan as trading partners and allies, effectively 'smothered' the foreign and economic policies of those countries. Takeshi argues that the 'second phase' of post-war politics in Japan (from 1960-1985) saw the abandonment of ideological development and a commitment to economic growth. In the second phase,

Japanese politicians began to lose interest in the high politics of diplomacy and national security, and competition among political parties became a mere formality, adding momentum to the political apathy of the people.

By 1985 the very success of Japan's accumulation strategy had forced a re-evaluation of its political role, but by then political corruption was so entrenched that its politicians no longer knew how to take the initiative in foreign policy which "continued to be oriented exclusively to economic issues". Johnson takes up this argument and says that the failure to develop a political dimension is a direct result of the 'smothering strategy' on the part of the U.S. during the cold war. This failure left a vacuum into which MITI stepped to steer foreign policy in accordance with its own limited bureaucratic concern for economic growth.

MITI's influence over foreign policy derives from the primacy given to industry policy which, Okimoto argues, plays a pivotal role in Japan's political economy. It facilitates communication and information exchange

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95 The Cold War in Tonelson's terms was therefore a 'smothering of history' and the breakdown of Bretton Woods signified a breakdown in the conditions that aligned their policies with those of the U.S. Furthermore, in contradistinction to Fukuyama, who argues that the collapse of the eastern bloc regimes signifies the 'end of history', Tonelson argues that it must be understood as no more than history restarting. Alan Tonelson in Chalmers Johnson, Ibid., p. 4.
96 Sasaki Takeshi, cited by Chalmers Johnson, Ibid., p. 4.
97 Chalmers Johnson, Ibid., p. 27.
between the public and private sectors and underpins Japan's system of consensus and cooperation. MITI exercises an extraordinary amount of autonomy in framing industry policy which the government allows, he says, because as long as MITI and industry reach consensus about the direction and extent of economic growth, and serve the nation as a whole, there is little need for politicisation. Moreover, Okimoto argues that "MITI utilized industrial policy to seize the initiative on important issues". It takes a promotional, as opposed to a regulatory, approach to policy-making which sets it apart from other Ministries and allows it to expand its influence into non sectoral-specific issues. The uncertainty which characterised the political sphere after the LDP's defeat in 1993 has, if anything, increased rather than undermined this bureaucratic control of economic policy.

It should be noted that MITI's influence could not be evaluated in terms of its budget which was, in fact, very small. This was a factor often confused with 'small government' strategies favoured by economic liberals in the west who tended to compare state expenditure in Japan as a percentage of GNP to support their arguments about the efficacy of small government. MITI's influence is subtle and cannot be understood using the instruments western commentators use to measure the influence of the state in western capitalist societies. When MITI approves a project, it acts as a signal to the financial community that the sector or firm has been given official approval and loans are thereby guaranteed. These sorts of signalling effects, plus the different concepts of power which exemplify Japanese political economy and society render inappropriate

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99 Ibid., p. 231.
western preoccupations with measuring the relative strength of the private and public sectors, or the extent of state intervention measured against class or group pressure. These arguments not only misunderstand the subtle influence wielded by MITI, but perpetuate the adversarial relationship between business and government in their own countries, often typified by remarks about the damaging effects of 'getting into bed with government'. The attitude of business to bureaucratic involvement in the economy in Japan by contrast has been typified as "responsive dependence".102

These obvious differences between Japanese and western style capitalist formations are the foundation of western accusations of 'unfair' trading practices. Japan's response to the growing hostility was to try to reconcile their industrial policies with those of the west. This was not an easy task. Quite apart from these fundamental differences, Japan rejected the concept of comparative advantage based on resource endowment, which underpins western economics, and adopted instead something akin to Schumpeter's concept of dynamic competition. Where the former holds that consumption is primary and that resource allocation is guided by the invisible hand of the free market, the latter puts competition first, and upholds the legitimacy of government intervention in fostering competition in new technology, diversification of resource supply and competitive industrial organisation.103 Johnson argues that even its current recession has been self-induced partly as a "planned transition from a producer-oriented, high growth economy to a consumer oriented one" and partly "to discipline speculators and free riders".104 This goes a considerably way in supporting Prestowitz's argument that despite

102 Gary D. Allinson (c. 1975), pp. 34-35.
"[h]aving rejected the economic theories of the West, Japan nevertheless
tries to show that its policies do not conflict with them". Moreover, it
has attempted this reconciliation under the terms of GATT/WTO which, it
has already been suggested, is biased in favour of the U.S.

Ruggie's concept of 'embedded liberalism' is useful in this context. He
argues that GATT/WTO has systematically favoured intra-industry trade
over inter-industry trade, despite the benefits of the latter, because it is
easier for members to reconcile trade liberalisation with domestic stability
by promoting the former. The basis for discontent with Japan is
precisely that Japan favours inter-industry trade. Japan does not
therefore 'cheat', he argues, it is "simply, and importantly, different from
the established norm, around which the international trade regime
revolves". Given the importance of Japan to the health of the global
economy, and indeed to the U.S. in particular, a choice must be made -
either Japan must change, or the rules governing international trade
must.

Prestowitz argues that the rules must change. GATT/WTO, he says, "is
no longer adequate for doing business with Japan, if it ever was". However, while the U.S. holds, however tenuously, to the title of global
hegemon and while its suspicion of the way Japan does business
remains, the chances of that are negligible. Where then, does this leave
Japan? For Japan to change would mean a repoliticization of its society,
to rid it of the prevailing political inertia. This in turn would undermine
the patterns of cohesion and consensus which underpin Japan's
accumulation strategies. While MITI guides trade policy the most likely

105 Ibid., p. 34.
outcome will be an attempt to restructure patterns of global trade to complement Japan's own domestic constitutive principles. (Moreover, it is important to remember Leaver's argument that, given the bias of hegemons past, we should expect no more than this of Japan.) This would require a gradual transformation of the global trading system, based on the universalisation of western liberal modes of conflict resolution and patterns of accumulation, to one based on the Japanese model.

**Conclusion**

In conclusion, the argument presented here is that the significant external pressures on Japan to take a new global role, combined with internal and external constraints which in turn shaped and limited that role. The external pressures took the form of demands that Japan align its geo-political responsibilities with its economic success. The internal constraints limited its strategic options, while the external constraints denied Japanese difference and shaped global trading patterns in accordance with Western, and most particularly American interests. These factors must also be considered in the context of the political lacuna which existed (and continues to exist) within Japan and which leaves MITI guiding foreign and trade policy. It is also argued that MITI's agenda was to reshape the global environment in a way which complemented rather than undermined Japan's own unique strategies of accumulation and rule and it is within this context that the MFP proposal must be understood. The following chapter explores these strategies in more detail.
WHY A MULTIFUNCTION POLIS?

Introduction

The previous chapter showed how Japan was in the 1980s, and is still, caught between conflicting pressures. On the one hand, international forces have demanded that Japan open its economy and take some responsibility for regional defence. On the other hand significant domestic forces resist liberalisation and fear the consequences of a more active role. It was also argued that a largely depoliticised electorate, corrupt politicians and political inertia resulting from the 'smothering' of Japanese foreign policy by the U.S. during the cold war, virtually gave MITI a free hand to guide policy in accordance with its own narrow concern for economic growth. Realising the extent to which the country was trapped between conservative domestic and international forces favouring liberalisation, there is evidence that MITI wanted to demonstrate to its western trading partners in a concrete fashion the basis upon which Japan's own growth patterns have been established. If those countries could be encouraged to emulate Japan in this respect, the pressure to 'level the playing field' would be reduced as those countries attempted to find an alignment with Japan's constitutive principles rather than forcing it to align with theirs.

With this perspective in mind it is possible to 'read between the lines' of the MFP proposal to determine what Japan hoped to get out of the project. To do this requires an unpacking of the component parts of the concept.
Upon what was it based? What was the thinking behind it? Some clues are given in the paper which was tabled at the meeting in January 1987 where the concept was first proposed. The paper identified the major functions of the MFP as being a:

- Locus for industrial concentration for the 21st century, including the hi-tech sectors, and for support functions
- Forum for international exchange in the Pacific Basin (e.g. cultural exchanges between the Japan, United States, Canada, Australia and the ASEAN nations)
- Facility for recurrent adult education, taking into account the average life span (sic) of 80 years in the 21st century
- An everyday living environment with 21st century-type amenities, which equates ordinary life with that on a resort.

It should be noted first that the primary aspect of the MFP was that it be an industrial complex, including but not limited to high technology. The second thing to note is that it was to foster links between the countries forming the Pacific Rim including the United States and Canada. The third thing to be noted is that the service oriented aspects were given secondary importance and are limited to the facilitation of cultural exchange, adult education and the establishment of life-style amenities and to supporting the industrial functions of the MFP.

The emphasis on industrial concentration is important given that the MFP eventually came to be promoted as a service based concept. The reason why Australia did not take up the challenge to develop an industry-based MFP is examined in the next chapter where it is shown that Japan's

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1 The document which is usually referred to as the first is MITI's Basic Concept. However, this was produced after discussion with Australia and probably is influenced by those discussions. The document which was tabled at the January 1987 meeting was two-pages in length and entitled A multifunctionpolis scheme for the 21st century, authored by MITI.
suggestion for an industry-based MFP derived at least in part from Australia's own request to Japan for assistance in developing an export-oriented manufacturing sector. It will be argued here that Japan's emphasis on industry also provides the link between MITI's desire to universalise its constitutive principles and the idea of the MFP. To explicate this requires a step back in time to examine the historical relationship between government and business in Japan and how MITI came to play such a pivotal role in guiding industrial development. It also requires an examination of some of MITI's experiences with economic restructuring in Japan. In the attempt to sustain growth through their own program of restructuring, MITI learned some valuable lessons which they brought to bear on the broader problems of trade and defence policy as outlined in the previous chapter.

Those lessons were derived from MITI's management of Japan's technopolis program, and with the experiences of Japanese multinational corporations which were driven offshore in response to the high Yen and resistance to Japanese exports. These two sets of experiences need to be examined before moving on to explore their impact on the subsequent development of the MFP concept.

The Technopolis program

A good place to begin an analysis of MITI's experiment with technopolises is Sheridan Tatsuno's *The Technopolis Strategy*. In it, he argues that MITI became concerned about the conservative nature of Japan's education policy that was not meeting industry's need for innovation.\(^2\) As the
technological gap between Japan and the other industrialised countries closed and access to imported technology became more and more limited. MITI became aware of the need for Japan to extend its own technological base. MITI became exasperated with Japan's system of rote learning based on "regimentation and conformity" which it considered had become an anachronism. As western countries closed off access to research to protect their own industries, MITI's concern to generate basic research within Japan grew accordingly.

Tatsuno argues that, having abandoned as "hopeless" the battle to change education policy, MITI attempted to resolve the problem through its Technopolis concept. Having already had a long history of experimenting with new cities, MITI was fascinated by the success of America's Silicon Valley in generating new ideas and used it as a model upon which to build their new concept.

By 1984 Silicon Valley had become the ninth largest manufacturing centre in America with the fastest growing and wealthiest local economy. Working and residing in or near the Valley were the biggest concentration of intellectual and wealthy elites in the country, with over 6000 Ph.Ds and 15 280 millionaires. Silicon Valley also became unique in America through the development of its own distinctive management style, which included generous employee benefits and the development of a family-like admission that the technopolis concept as a strategy to nurture creativity failed. See also The Australian, 16 March 1994, 'G-7 leaders split over unemployment', p. 1, and 'Japan foreshadows new approach to jobs', p. 6.

Sheridan Tatsuno (1986).
Everett M. Rogers and Judith K. Larsen (1984), pp. 28-29. It should be noted that Silicon Valley grew outwards from Stanford University's Research Park and is not really a valley at all. The buildings which make up the complex are all on flat ground and the area is bounded by hills on two sides and by San Francisco Bay. Nor is Silicon Valley an official name, but a metaphor which 'caught on'. Rogers and Larsen, pp. 25-26.
relationship between management and staff. However, the Valley’s guiding academic philosophy was to nurture “steeples of academic excellence”, while its entrepreneurial spirit owed its energy to the movement of ambitious employees of established firms, initially attracted by the intellectual climate and working conditions, into their own businesses. Pleasant climate and living environs, access to Stanford University and the superior quality of the intellectual milieu all acted as drawcards for new firms and ambitious people. The Valley also owed its early success to military funding which filtered through to residential firms via Lockheed. This combination of factors proved to be a potent mix producing, in the early 1980s, 40,000 new jobs and sales of over $40 billion every year. The series of events which led to its establishment were unique, however, as were the people who drove it. According to Larsen and Rogers it was an extraordinary coincidence of fortune, people and ideas "whose time had come". They argue that the success of Silicon Valley largely owed its fortunes to circumstance.

MITI, however, believed that Silicon Valley’s success could be emulated. They set out to ‘Japanise’ the concept and to mould it into a strategy for nurturing creativity, linking it to the experience they had gained through their own experiments with Tsukuba Science City and Atsugi Research City which were established to promote joint research between Japan’s

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6 Ibid., pp. 33-34.
7 This was Fred Terman’s philosophy. In his own words “Academic prestige depends upon high but narrow steeples of academic excellence, rather than upon coverage of a more modest height extending solidly over a broad discipline”. A steeple is “A small faculty or group of experts in a narrow area of knowledge, and what counts is that the steeples be high for all to see and that they relate to something important”. In Frederick E. Terman, ‘The Development of an Engineering College Program’, Journal of Engineering Education, 58 (1968). Cited by Everett M. Rogers and Judith K. Larsen. Terman was Vice-President of Stanford University and co-founder of Stanford Research Park out of which Silicon Valley grew. Ibid., p 36.
8 Ibid., p. 28.
national research institutions. They came up with the idea of the Technopolis that would build on Japan's unique ability to develop specific industries through this type of collaborative research by including the private sector to create an appropriate environment where innovation could be nurtured.\textsuperscript{10}

Tatsuno argues that historical and cultural differences between the two countries are clearly apparent when the Japanese technopolis and America's Silicon Valley are compared. As it has already been shown, the latter was not planned, it grew spontaneously and in a disorganised fashion. Says Tatsuno

Silicon Valley embodies the frontier of American industrial thinking. It is fast-moving, spontaneous, individualistic, transient, and nonconformist - noted for its rebellious start-up companies and frequent industry shakeouts. People and companies are evaluated not only by who they are but by how they perform and success is not measured in years but in quarters.\textsuperscript{11}

Government has played only an indirect role in its development and its involvement is not welcomed by business. This is clearly apparent in a comment made by one Silicon Valley leader who said "we insist on preserving the right to fail".\textsuperscript{12} As it was shown in the previous chapter, this type of thinking is a complete anathema to the Japanese bureaucracy, especially MITI, who believe in the 'guiding hand of the state' to steer economic development. They now wanted to steer the economy along the path of technological creativity.

\textsuperscript{10} Sheridan Tatsuno (1986), p. xvi.
\textsuperscript{11} Ibid., p. 51.
The impetus for this came as early as the 1960s when international pressure for capital liberalisation threatened to expose their reliance upon imported technology as the basis of their growth strategy.\(^{13}\) MITI subsequently incorporated the promotion of new technologies as well as the need to decentralise industry into its *Visions for the 1970s*. By the end of the 1970s MITI's need for a better public image together with the fallout from the second oil shock saw its *Visions for the 1980s* stress the importance of new technology and emphasise the need for Japan to develop energy security through the creation and use of new technologies. Since the west had begun to close off access to its basic research, Japan's need for energy efficiency and for continuing access to new product ideas would have to be met by developing its own research capacity.\(^{14}\)

After closely examining Silicon Valley, MITI identified the interactive relationship between researchers and between researchers and private industry as key factors in the generation of innovation. Their own experiment with Tsukuba by contrast was marked by an absence of private industry involvement due mainly to the reluctance on the part of private firms to relocate from Tokyo and other major centres to Tsukuba. Tight security and the self-contained-laboratory style of research also limits the cross fertilisation of ideas. Tatsuno describes Tsukuba as "a totally cerebral place, a one-dimensional brain with very little spontaneity or surprise".\(^{15}\) The technopolis concept emerged as an answer to these problems. It also came to be seen as an answer to the problem of the "hollowing out" of the economy.\(^{16}\) MITI believed that the establishment of

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\(^{13}\) Chalmers Johnson (1982), p. 276. See also Daniel Okimoto, p. 68.


regional cities oriented to high technology research, with an infrastructure carefully oriented around people and services, would catalyse economic decentralisation and encourage Japanese firms to invest regionally rather than moving offshore. The Technopolis would bring together MITI's strategy to nurture creativity with its plans for regional development. Silicon Valley, as a model, would provide the 'entrepreneurial spirit'.

MITI eventually came up with a plan to build nineteen Technopolises throughout Japan, but the initial plan was to build only two or three. The intensity of competition between the Prefectures to have a Technopolis established in their region surprised MITI. Forty of the forty-seven prefectures wanted the opportunity to attract new industry and employment to their region. MITI responded by asking the prefectures to put in proposals identifying both their competitive strengths and their ability to attract high-technology industries. Nineteen proposals were received and after continued intense lobbying by the prefectures, all nineteen were approved.

The rivalry continued with attempts to attract industry to the Technopolises by means of tax incentives, low interest loans and R&D subsidies. Relocating industries also receive national assistance including special depreciation allowances for machinery (30% for the first year) and buildings (15%) and one-third government subsidy for joint (national and regional) research projects and have access to low interest loans. There is

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233 and Okimoto (1989), pp. 50-51, it has been less successful in preventing industries which are of strategic importance to the economy from moving offshore.

17 Sheridan Tatsuno (1986), p. 120.
also a myriad of other programs offered by the prefectures and the technopolises themselves designed to attract people and industry. These include technical assistance, prizes, programs to facilitate information exchange and technology transfer, access to talent data banks and counselling services.\textsuperscript{20}

**Japanese Foreign Direct Investment**

*If MITI was unprepared for the competition between the Prefectures over the siting of the Technopolises, then they must have been equally surprised by the level of competition between other countries to attract Japanese investment during the mid 1980s. The clear implication was that Japanese firms, whether investing at home or abroad, were considered to be desirable triggers for growth in economically depressed regions.*

By the mid 1980s, and particularly as a result of the Plaza agreement in 1985, the value of the yen had increased to the extent that Japanese exports had become relatively expensive. The immediate response in Japan was a decline in domestic manufacturing and negative growth in that sector for the first time in 10 years. The motor industry recorded heavy losses, steel and raw materials processing almost halved, annual growth in the electronics industry fell from 14 per cent to 1.5 per cent and the profits of the top fifteen Japanese companies fell to one-third of their 1984 levels. At the same time Japanese car manufacturers increased their production in the U.S. by 400 per cent between 1986 and 1990,

while Sanyo, NEC and Toshiba lifted their overseas electronics production by 20 to 50 per cent.\textsuperscript{21}

Unable to restructure their economies quickly, the numbers of unemployed rose sharply in the older industrialised countries and the opportunity to alleviate the pressure by attracting Japanese manufacturing spurred competition in and between them for Japanese foreign direct investment, with governments offering cheap land, subsidies and tax holidays. It is important to note that Japanese FDI was also driven by two other factors. As Japanese firms became more competitive, other industrialised countries raised tariff barriers to protect their own industries, forcing Japanese exporters to set up plants in those countries. Also the Japanese government had promoted investment over trade since the early 1980s, offering tax incentives and loan programs through the Export-Import Bank of Japan for firms undertaking FDI. Young-Kwan Yoon found that Japanese FDI increased five-fold between 1980 and 1988, from US$36 billion to US$186.4 billion.\textsuperscript{22}

Focusing on Japanese investment in the European Community, Thomsen and Nicolaides found that Japanese MNCs had a distinct preference for the U.K. as a site of investment with over half of the investors opting for greenfield investments.\textsuperscript{23} They argue that the availability of incentives

\textsuperscript{22} Kwan-Yoon Young (1990), p. 9. Ackroyd et al suggest that FDI is encouraged by Japan as part of its strategy for reorienting its economy from heavy high energy manufacturing to more high technology information intensive industry, Ackroyd et al (1988), p. 20. This may be regarded as part of MITI's management of the industrial life cycle. Okimoto argues that MITI actively manages the rise and decline of specified industries, intervening significantly to help an infant industry to get established and attain market share, withdrawing when the industry reaches its peak, then intervening again when the market is saturated or when the industry is deemed to be no longer viable. Daniel Okimoto (1989), p. 50.
\textsuperscript{23} S. Thomsen and P. Nicolades (1991) p. 15. See also John H. Dunning (1986).
was not as significant a factor in making the decision about where and how to invest for the Japanese as:

- access to markets
- avoidance of trade barriers and the opportunity to capitalise on competitive advantage
- meeting consumer needs
- meeting the needs of other Japanese firms (subcontracting firms following a 'parent' firm)
- English language (oddly this reason applied more to the Netherlands and Belgium than to the U.K.)

None of these factors were found to explain satisfactorily why the U.K. should be favoured over other European countries. The results of surveys found that the factors taken individually favoured other EC countries rather than the U.K. Thomsen and Nicolaides conclude that the U.K. was most probably the most favoured site for investment, not because of any specific criteria but because of its general appeal. They do acknowledge that incentives not specified in the survey may be a factor, but say that if they are, then they are more relevant for explaining where a firm decided to invest within a country rather than why they chose that country in the first place. Morris argues that the U.K. was the favoured site of Japanese FDI because it responded positively earlier than other countries to the Japanese presence in its economy, that the state of British manufacturing was 'moribund' providing an appropriate

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26 *Ibid.* They do not indicate which incentives were listed in the survey.
'soft' base for overseas production. British wages were low and regional incentives good relative to other EC countries.\(^{27}\)

While it may be difficult to generalise about why particular locations are chosen over others, it is clear that Nissan was attracted to the Sunderland area in the U.K. at least in part by subsidies, which in this case were linked to greenfield land acquisition. They were also clearly attracted to the favourable labour market conditions. Prior to the selection of Sunderland as the preferred site, no less than 42 local authorities vied with each other to have the project located in their region.\(^{28}\) Employment prospects in the north of England had declined dramatically by the mid 1980s with some of the inner areas of Sunderland experiencing unemployment rates of up to 60%\(^{29}\) which explains the determination of the local authority to secure the plant. In 1984 the Borough of Sunderland offered Nissan 733 acres of land upon which to build its plant. Nissan purchased 297 acres, retaining the option to purchase the remaining 437 acres within three years at the same price. This means that the 1984 price paid for non-industrial land was the price paid by Nissan for the extended site when it took up the option to purchase in 1987. The (non-industrial) price paid by Nissan was estimated by Crowther and Garrahan to be in the vicinity of £1800 per acre. By 1987 the (now industrial) price was estimated to be in the order of £20 000 per acre, resulting in a subsidy by the local council to Nissan in the order of £7.9 million.\(^{30}\)

\(^{28}\) Ibid., p. 34.
\(^{30}\) Ibid., p. 54.
It is also clear that Nissan had planned early to provide for the future location of supplier firms. By leasing or selling land to sub-contracting firms Nissan would quickly recover the original cost of land acquisition while securing the appropriate preconditions for implementation of the *kanban* system of production, an industrial configuration unique to Japanese corporations. The *kanban* system requires a core site for the major production facility plus an extended site for the location of supplier companies which facilitate just-in-time production. These companies become locked in to the trading cycle of the major production facility which gives it the ability to control product development and pricing in the supplier firms. Nissan thus attains "spatial concentration of production" and control of the complete production process. Location of the production facility on a greenfield site in an economically depressed region, moreover, gives the Japanese corporation the ability to define the industrial relations environment. According to Holloway, a greenfield site allows "many of the problems of managerial control [to be] transferred to the point of selection", and great care is taken in the selection of employees to ensure that they have the right attitude. Crowther and Garraham argue that this approach to industrial relations is emulated by its components suppliers, completing Nissan's control over the entire spatial and social organisation of production. Nissan's announcement that it would be a single-union plant also sparked competition between unions for that privilege. Nissan's management strategies were imitated by other industrialists in the country who were striving to retain market share. The result was the birth of business unionism in the United

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Kingdom with unions closely cooperating with management to improve productivity. (These points will be elaborated in chapter 8).

If the first lesson that MITI learned was that regional governments would compete for Japanese investment, particularly governments in economically depressed regions both at home and in the older industrialised countries, then the second lesson they learned was that Japanese MNCs had become effective carriers of Japanese corporate strategies, including effective control of organised labour. In fact the impact of Japanese MNCs was so significant in Britain that it sparked a debate over the possible 'Japanisation' of industry in that country.

**Japanisation of British Industry**

It has already been argued that the institutional structure in Japan is characterised by a high degree of integration and cooperation between business and the state. That cooperation is clearly apparent between the central banks and manufacturing industry and in MITI's program of restructuring which, through government incentives and preferential support, has reoriented Japan's domestic economy from heavy to high technology industry while orchestrating foreign direct investment. This is almost diametrically opposed to the British economic structure which is characterised by a high degree of fragmentation. Finance capital has been more attuned to overseas investment opportunities than the needs of domestic manufacturing, and like the U.S., the state has never effectively intervened to coordinate or direct industry investment.\(^{(35)}\)

\(^{(35)}\) Andrew Cox (1986), p. 35.
These differences appear to have been accepted as fact by participants in the debate, who differ only in their perceptions of how far-reaching the process of Japanisation would become, or in other words, the extent to which British industry would emulate the institutional structure of Japanese capitalism, including the social organisation of production.

The debate was nicely encapsulated by a series of articles in a special edition of *Industrial Relations Journal* in 1988. The authors sought to identify what Japanisation in fact would mean, to examine the culturally specific institutions of Japanese capitalism and the appearance in Britain of new industrial forms including new types of industrial relations and management practices. For Ackroyd and Burrell Japanisation has come to mean the adoption of:

- detailed organisation and monitoring of production systems found within Japanese companies and, with it, increasing interest in the prospects for transferring (or borrowing) certain elements of Japanese practice for use in British-based companies.\(^{36}\)

They argue that full Japanisation of the British economy is highly unlikely given its different structural features and that concern should be oriented to the challenge of Japanese capital rather than the extent to which British industry is transformed by it. Drawing upon the work of Frankel and Dunning they argue that Japanese firms in Britain benefit from "acts of omission" in the country's approach to industry policy.\(^{37}\) In other words the challenge from Japan comes not so much from their superior management techniques but from their willingness to exploit weaknesses in the organisation of British economic activity, particularly Britain's failure

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to steer investment and growth. This failure has resulted in policies
designed to attract foreign manufacturers to boost employment in low
growth areas and to access new technology to speed innovation. As
already argued, these policies have often taken the form of investment
incentives, of which Japanese firms have been willing to take advantage.

The major orientation of the debate in fact is the extent to which the
British industrial structure and cultural difference will inhibit
Japanisation. Briggs argues that Japanese work practices will not fit
easily in the British context and that "lifetime employment; company
unions; seniority based payment systems; lifelong training schemes and
elaborate group decision processes are not exportable commodities".38
Smith argues that the concept of Japanisation is in any case something of
a myth and derives from a "composite ideal" drawn from, but not limited
to, aspects of Japanese industrial practice. It is an ideal, he says, which
has set a standard against which British industry has begun to measure
itself. Its elements are:

voluntary subordination of the individual worker to a pattern of flexible team-
working; vigilant monitoring and continual improvement or correction of work
practices even at the cost of personal relaxation; a spirit of dedication to
company ideals even at the expense of some individual freedoms and
satisfactions; an elaborate continuing programme of education,
communication and morale-boosting within the company; and long-term
security of employment for company employees.39

He argues that the ideal is not relevant to Britain because it demands a
degree of trust, compliance and commitment that has no cultural base.

Moreover, and unlike their Japanese counterparts who were promised a prosperous future in return for commitment and hard work, British workers are motivated by insecurity and fear of hard times. Smith argues that Japanisation, if it means anything at all, may mean that British industry "is forced to adopt costly and rigorous standards in return for staying in business". Dickens and Savage similarly argue that there are cultural constraints on emulating the Japanese, but for them it resides in the different value that British workers place on life outside the factory which limits its adaptability. Finally, Graham argues that so-called Japanese practices have been modified to such an extent that it is nonsense to call them Japanese at all. Just-in-time production for example in Japan is favoured for its ability to reduce overall costs, but in Britain (and the west in general) it is promoted as the means by which labour costs can be reduced. This has the wider advantage of devolving the blame for rigidities in the overall structure of industry on to labour and preventing any redistribution of power at a time when flexible work practices are becoming an imperative.

Despite some consensus about the limits to Japanisation, the tone of the debate was clearly one of concern about the impact of adopting some aspects of Japanese management techniques, particularly for labour. Without the rest of Japan's institutional structure British workers were thought to be likely to bear the brunt of this method of 'modernising' industry.

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40 Ibid., p. 49.
41 Peter Dickens and Mike Savage (1988), p. 60.
Universalising Japanese corporate strategies

There is no doubt that the Japanese government was aware of the impact that its multinationals were having on the economies of the older industrialised countries. In its 1986 *White Paper on International Trade*, the Japan External Trade Organization (JETRO) acknowledged their appeal, noting that one of the factors which drove Japanese FDI was the energy with which industrialized nations are seeking to attract Japanese industry. In America and in Europe, reducing unemployment in the manufacturing sector is one of the most important tasks that must be accomplished to reactivate regional economies. Local governments have taken the lead in offering a wide range of incentives designed to draw business into their regions.43

The *White Paper* also acknowledges the advantages Japan has accrued from the establishment of an open trade system in the post-war period, but claims that Japan's superior ability to adapt to changes in world demand is the key factor in creating the country's huge trade surplus. It says that Japan must reduce its trade surplus, not by limiting its own capacity for growth, but by sharing its corporate strategies with the rest of the world.

It has already done this in its own region. Cummings attributes the success of the 'gang of four' (South Korea, Taiwan, Singapore and Hong Kong) to the emulation of Japan. He says that the economic success of Taiwan and South Korea particularly can be traced as far back as the 1930s to Japan's imperialist ambitions which "molded them into look-alikes",44 and later to Japan's management of the life cycle of its own

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44 Bruce Cummings (1984), p. 11.
industries. The constitutive principles of all three have become remarkably similar, he says, and argues that they can all be characterised as "Bureaucratic-Authoritarian Industrializing Regimes", two important elements of which are a strong state and the exclusion of labour from policy making.

In this context, it is interesting that the White Paper urges the older industrialised countries to facilitate Japanese direct foreign investment by being responsive to Japanese multinationals. It says:

Direct investments in industrialized countries are often hampered by high labor costs and difficulty in obtaining needed parts and raw materials. ... It is to be hoped that host governments will take prompt steps to remove those obstacles which are too great for individual companies to overcome alone.

The White Paper outlines a 4-pronged strategy by which Japan can exercise leadership in reinvigorating world trade. It can first, provide a market by expanding domestic demand; second, share its production strategies with the industrialised (and developing) economies; third, promote technological advancement in cooperation with other industrialised countries and fourth, actively assist in developing new GATT/WTO rules to ensure the maintenance of free trade.

Points two and three are of particular relevance.

Point (2): MITI knew that it has established a dynamic and competitive manufacturing sector which had withstood the ravages of two oil crises,

45 Ibid., p. 3.
46 Ibid., p. 38.
48 Ibid., pp. 49-50.
while the manufacturing sectors in the older industrialised countries had declined to the point where they were having a negative impact on growth. For example, the White Paper says that in the U.S. the 'sluggish' manufacturing sector contributes to the fiscal deficit and Europe's 'stagnating' industries contribute to the growing unemployment problem. The Paper says that Japan can put its corporate vitality to work in activating the world economy, particularly in the industrialised economies, by supplying them with "some of the finest production technology and knowhow in the world".  

Point (3): There is a clear link between the White Paper's emphasis on research and the development of new technology and Japan's technopolis program. It says that Japan can no longer rely on an inward flow of technology but must become a contributor to the development of new technology: 

Development is often carried out by international teams of researchers linked by growing worldwide networks. By devoting more investment to its intellectual resources, Japan can become a central promoter of technological advancement in cooperation with other industrialized countries. This will be important not only for Japan's long-term economic growth but for the development of the global economy as a whole as the 21st century approaches. Japan's future should lie in its intellectual resources, not merely trade, and preparations for that future must begin now.

The emphasis of point (1) on opening its domestic market has clearly been in response to trade friction caused by its massive surplus. In an oblique reference to Japan's preference for inter-industry trade, point (4) calls for 

49 Ibid., p. 49.
50 Ibid., p. 50.
a new GATT/WTO round to consider rules for new types of trade not covered under the existing rules to ensure stability for future world trade. The whole emphasis of the Paper is on the development of a healthy global economy within which Japan can continue to trade and grow.

The older industrialised countries were threatening Japan's economic future by their inability to generate new dynamism, but the response of other nations to the presence of Japanese manufacturers, seems to have indicated to MITI that they had become carriers of one of Japan's constitutive principles - the control of organised labour. This is the imperative behind Japan's emphasis on the need to export its superior corporate activity. It would be through Japanese foreign direct investment, particularly in manufacturing, that the older industrialised economics would adopt Japanese production techniques in order to stay competitive. It was particularly salient that governments and business in the west had themselves identified labour as they key to reform. They were ready and willing to adopt Japanese strategies to modify union influence.

The exclusion of organised labour in Japan

The exclusion of organised labour from the policy process is one of the fundamental tenets of Japanese political economy. As a consequence, and unlike many of its western counterparts, Japan's industry policy, led by MITI, has not had to accommodate demands from organised labour. Okimoto argues that in other countries governments respond to pressures to protect employment which often results in a range of policies which

51 Ibid., pp. 43 and 50.
inhibit effective industry policy. These often take the form of subsidies, import protection, nationalisation, employment generating schemes, unemployment benefits, retraining programs and foreign investment restrictions. In Japan, a compliant labour structure has allowed MITI to pursue an unfettered growth strategy based on positive rather than negative adjustment policies, such as promoting new growth industries and ruthlessly cutting back, rather than propping up, declining industries.\textsuperscript{52}

In Japan interest groups as diverse as big business, agriculture, housewives' associations and bathhouse owners all receive some degree of state sponsorship, but neither of the two largest labour unions receive any.\textsuperscript{53} This is the result of close cooperation between the state bureaucracy and large industry to suppress opposition in the period of rapid industrialisation in the late nineteenth and early twentieth centuries and to draw workers into an alliance with employers at the level of the enterprise.

The exclusion of organised labour in Japan began in the Meiji period with the birth of Japanese capitalism that developed with no unifying or universally applicable set of laws. For example laws permitting freedom of contract were not accompanied by laws ensuring freedom of association, there was no apparatus of representation and the formation of peasant unions was forbidden. Labour disputes were handled under the repressive codes of criminal law. The feudal patriarchal relations between peasants and landlords, based on loyalty, filial piety and duty, continued

\textsuperscript{52} Daniel Okimoto (1989), pp. 231-232.
\textsuperscript{53} T.J. Pempel and Keiichi Tsunekawa (1979), p. 245.
in the stage of simple commodity capitalism as the only system of social unification.\textsuperscript{54}

In response to growing civil unrest during the 1880s, led by disgruntled Samurai and disaffected peasants who had been influenced by western liberal ideas, a system of representative government was established in 1885 and a Constitution was promulgated in 1890. The franchise was male and based on property ownership and was therefore limited to about one per cent of the population. Parliamentary (Diet) activity was severely circumscribed by the executive power of the Emperor (Tenno).\textsuperscript{55}

Some Japanese officials during the Meiji period argued for continued measures to protect workers based on traditional Confucian principles related to safeguarding the welfare of the people. According to Garon, however, there is some doubt about how much those principles had been upheld in the previous Tokugawa era, and there is no doubt about "the Meiji state's reluctance to intervene decisively on behalf of the nation's workers".\textsuperscript{56} Rapid industrialisation had created a labour shortage by 1890 and skilled factory workers were highly mobile in their search for better wages and working conditions. Unions began to form in the mid 1890s with the moderate goal of raising the status of heavy industry workers to that of white collar workers. Unionists avoided direct confrontation and the Union Journal Labor World (Rodo sekai) announced that its "policy was not to engage in a divisive struggle against capitalists, but rather to perfect true harmony and cooperation (chowa)". Despite their moderate agenda, pressure from employers and government resulted

\textsuperscript{54} Ibid., pp. 36-39.
\textsuperscript{55} Anthony Woodiwiss (1992), p. 43.
\textsuperscript{56} Sheldon Garon (1987), p. 11.
in the self-dissolution of these unions by 1900. Whether motivated by Confucian mores, the desire to improve industry productivity or to avert growing social unrest, state officials endorsed protective social policy but were opposed to workers organising to advance their own interests. They also rejected employers' claims that the tradition of familialism alone would resolve industrial and social problems. They gave carriage to a Factory Law, enacted in 1911, which imposed minimum health and safety standards for workers including reduced working hours.

A Police Preservation Law had been passed in 1900 in response to increasing industrial unrest during the 1890s. Article 17 of the Act prohibited inducing people "to strike, join unions, or engage in collective bargaining", which meant that while unions were not directly outlawed, all union activity was. Continued riots and protests, intersecting with the emergence of a nascent socialist movement, resulted in an amendment to the Police Preservation Law in 1911 to permit the formation of the Special Higher Police (the 'thought police'), whose mandate was "to investigate and control social movements". The tendency for socialism to take root in labour organisations in the west was a primary rationale behind this amendment and for the refusal to legitimate union activity in Japan in this period.

The Japanese Social Policy Association, formed in 1897 and including in its membership academics, higher civil servants and respected businessmen, upheld the right of workers to unionise and encouraged the

57 Ibid., pp. 17-18.
58 The provisions of this Act were not fully implemented until 1916. Ibid., pp. 19-29.
60 Sheldon Garon (1987), p. 32.
formation of a Friendly Society (*The Yuaikai*) committed to "harmony and cooperation between Labor and Capital". In this way worker organisations were able to avoid the sanctions of Article 17 while raising public consciousness about the social and economic advantages to be gained through the formation of labour unions. They succeeded to the extent that some employers, impressed with their moderate claims about improving productivity, raising skill levels and the "moral character of workers", allowed their employees to affiliate with the Society.  

Rapid industrial expansion after World War I increased the demand for skilled workers who increasingly resorted to strikes to win higher wages. This coincided with the rice riots of 1918 and for two years Japan experienced unprecedented social unrest. Despite efforts to quash militant action under Article 17, membership of the Yuaikai grew rapidly. In 1919 it became a genuine trade union and in 1921, now renamed the Japan General Federation of Labor (*Sodomei*), committed itself to "ridding the world of the evils of capitalism". Throughout the twenties members of the more liberal of the two political parties (*kenseikai*, later *Minseito*) and Home Ministry officials, began to acknowledge the need to implement new Labor Laws. Even some employers began to concede that it was easier to deal with disciplined labour organisations than disorganised strikers. Eight attempts were made to pass a Labour Bill through the Diet between 1920 and 1931 but all failed. Trade unions were not to win legal recognition until the Occupation Trade Union Law of 1945.  

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During the authoritarian thirties horizontal, or industry-based, organisations were expressly prohibited and were replaced with Works Councils at individual enterprises, which had no authority to make decisions and whose agenda was limited "to matters of productivity, accident prevention, and improved hygiene and welfare". In 1940 the nation's political parties were dissolved and membership of worker organisations was absorbed into patriotic units, headed by the Greater Japan Industrial Patriotic Association. After the war, SCAP authorities encouraged the formation of a strong union movement and even encouraged union affiliation with the political left. Garon argues that 'SCAP officials desired a strong union movement as a political counterweight to the entrenched presurrender elites, and they were initially willing to tolerate some Communist Party influence within organized labor'. It is also important to note, however, that this encouragement of unions was consistent with America's post-war commitment to the incorporation of labour into policy making. The Trade Union Law of 1945 which gave legal recognition to union activity, including the right to strike, resulted in a thousand-fold increase in union membership, from 4000 in 1945 to 5000 000 in 1946. But when the newly militant workers threatened a general strike in 1947 the Labor Ministry attempted to sever the links between the political and industrial elements of the labour movement. They outlawed the general strike and stressed to workers the importance of retaining autonomy from political interference. In 1949 the Yoshida cabinet overhauled the Trade Union Law to give government more control over the internal organisation of unions. At the same time employers organised themselves into the Japan

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66 Ibid., p. 220.
67 Ibid., p. 238.
Federation of Employers' Associations (*Nikkeiren*) and began a "coordinated ... enterprise level campaign to renegotiate early postwar collective contracts, limit the scope of union activities and reassert managerial authority".\(^68\)

By 1949 America's concern about the communist threat overtook its concern with democratising Japan and efforts were channelled into turning Japan into "a prosperous bulwark against communism".\(^69\) The conservative Yoshida cabinet and the occupation forces were firmly behind employers in the resolution of industrial conflict. Dore's account of the Furasato Factory during this period shows how the Plant Workers Union was weakened by a split in their ranks between socialists and communists and when the communists were purged through dismissals and suppression the socialists accepted a new contract in 1951 which created a constitutional structure which allowed management to reassert its authority over workers "more completely than any British manager could hope for". The union, however, retained its standing in modern Japan as the "legitimate bargaining agent" over wages and access to factory facilities and the abolition of status differentials between white and blue collar workers (in all but wages) continued to be accepted.\(^70\) Dore argues that these two wins signify that Japanese industry has experienced a "social democratic revolution" which has led to substantial gains for workers in large industry such as life-time employment, wages based on seniority and merit rather than function, continuous training, assured career advancement and employer commitment to the welfare of


\(^{69}\) Ronald Dore (1973), p. 118.

workers including housing, medical services, transport subsidies and social facilities.\textsuperscript{71}

However, government and business pressure against the formation of horizontal unions throughout the formative period of industrialised capitalism in Japan contributed to the dual labour market structure which characterises modern Japan. The adoption by large firms of a form of industrial paternalism as the means to encourage the establishment of enterprise based worker organisations during the interwar period was directed entirely at neutralising the labour movement.\textsuperscript{72} A consequence of this was that the labour movement concentrated in smaller firms which lacked the resources to implement the paternalistic arrangements adopted by the large firms.\textsuperscript{73} Large argues that bigger firms "gained control of the labor relations system and the labor market to the extent that they always had the balance of power vis-a-vis organized labor".\textsuperscript{74} Union wins for core workers of large firms were not so much evidence of a social democratic revolution, as the price paid for the containment at the level of the enterprise of organised labour, and their exclusion from national policy making.

The modern Japanese state continues to pursue its goal of economic growth in cooperative collaboration with business and their organisations but excluding labour. According to Pempel and Tsunekawa, the exclusion of labour results directly from their inability to form peak labour federations that would facilitate their representation in national decision

\textsuperscript{71} Ibid., pp. 203 and 423-424
\textsuperscript{72} Stephen S. Large (1981), pp. 78-80.
\textsuperscript{73} Ibid., p. 81.
\textsuperscript{74} Ibid., p. 236.
McEachern argues that this exclusion of Japanese workers from policy making meant that when the Japanese economy was challenged by the international crisis of the early 1970s, a coordinated response between the state and business was possible "without too much regard for the concerns or complaints of the working population".  

Although the United States had clearly played a role in suppressing the political aspirations of workers by suppressing communism in Japan, it is important to understand that it was Japanese conservative forces that were fearful of the threat of a communist revolution. For them the biggest threat was not the Soviet Union, but the communist movement at home. Welfield argues that they believed that a temporary alliance with the western powers would be the best way to avert that threat, and that once Japan had become strong again, it could free itself from the constraints of a temporary security alliance and emerge once again as a great Asian power. These views were particularly held by war time Prime Minister Yoshida whose long term vision was for a resumption of Japan's "natural historic relationship" with China. Others within the conservative ranks favoured a long term security alliance with the U.S. and Welfield says that these differences of opinion have remained to plague the political administration to the present day.

Welfield's work challenges assumptions that post-war Japan was shaped primarily in accordance with America's cold war strategy to contain communism, or indeed that it has been shaped by western principles.

26 Douglas McEachern (1986), p. 34.
28 Ibid., p. 54.
based on liberal democracy. Elements of the Japanese ruling class never accepted its U.S. defined role and Welfield argues that there is no evidence to suggest that Japan "can be relied upon to act as the compliant agents of Western policy in Asia".\textsuperscript{79} He argues that elements of Japan's unique polity were carefully preserved to provide a basis upon which the country could be rebuilt as a major power in its own right.\textsuperscript{80}

**Conclusion**

A strong state and the exclusion of organised labour from policy making are two of the core principles which constitute Japanese political economy. Unlike western concepts of strong government which are used to explain a government's willingness to take the 'hard' decisions, the strength of the Japanese state lies in its ability to steer the economy. While Japan clearly has a capitalist economy, the 'liberal' nature of its political system is questionable. Welfield demonstrates how western assumptions about Japan as an ally against communism were problematic in that Japan's primary preoccupation had nothing at all to do with liberalism and everything to do with the preservation of their own constitutive principles.

Despite radical reorganisation of Japanese capitalism including the bureaucracy, the financial sector, the industrial sector and the labour market, almost all institutions retained elements of the pre-war structure. MITI emerged from the occupation as one of the most powerful institutions in the country and set about its task of rebuilding Japan's shattered economy with both determination and the support of business.

\textsuperscript{79} *Ibid.*, Preface.
\textsuperscript{80} *Ibid.*, Chapter 2.
As a result Japan played out the most startling economic success story of the century. Since the seventies MITI's ability to steer economic growth while preserving the unique conditions that underpin it has begun to be undermined by limits imposed from without. Japan's major trading partners scrambled to restructure their economies to stay competitive, but as their competitiveness weakened so did their ability to trade. MITI's agenda was to create a world with which Japan can continue to trade, not by capitulating to western calls for fair play under liberal rules, but by creating opportunities for western countries to learn different rules.

MITI's growth strategies also came up against limits from within. Japanese business had relied upon access to the creative ideas produced by the west, and as access closed off, and MITI's efforts to rework the Japanese education system failed, MITI began to experiment with the technopolis to generate Japan's own creative base. It learned three important lessons from this. The first was that the technopolis concept was considered to be highly desirable by their own regional governments that would offer generous incentives to attract new industrial investment and employment to their regions. The second lesson was that governments everywhere would act this way. Japanese industrial investment was increasingly considered to be a highly desirable way of generating employment in low growth regions. The third lesson was that Japanese multinationals injected an element of competition into host economies that impelled domestic competitors to adopt Japanese management and production techniques, including new methods of controlling organised labour.

When MITI proposed the MFP to Australia as a "locus for industrial concentration" and stipulated a greenfield site they appear to have had a
particular agenda in mind. Not only did the concept fit with the White Paper's identification of the need for Japan to take a leading role in promoting technological advancement, they knew that the MFP as an international technopolis would be desirable to both the federal and regional governments in Australia. State governments would undoubtedly compete with each other over the location of the city and both the federal and state governments would offer large incentives to attract new investment to boost both national and regional growth. Their insistence upon a single greenfield site and their constant requests for concessions (see chapter 6) can be understood when consideration is given to the importance of establishing *kanban* production to demonstrate the effectiveness of Japanese management strategies. The establishment of the MFP as an international city would, moreover, require significant guidance by the federal government and the development of a close working relationship with business. In other words the establishment of the MFP in Australia would create the conditions through which Australia could 'learn by doing' the virtues of strong state and effective control of organised labour. International participation also would facilitate the widespread permeation of these principles.
Introduction

Like Japan, the post-war development of Australian capitalism must be understood in the context of America's attempt to integrate world capitalism. Unlike Japan, however, upon which restructuring was imposed, Australia willingly aligned itself with the new international order. Successive governments designed economic and defence policies to ensure that Australian capitalism would be congruent with the new international system sponsored and led by the United States.\(^1\) When that system began to experience crisis in the 1970s, it was inevitable that it would flow on to Australia. This chapter begins with an explanation of the crisis. It uses Simon Clarke's theory of overaccumulation as a framework for understanding the nature of what happened, both on a global scale and in Australia.

It is widely accepted, among orthodox economists at least, that the global economic crisis of the early 1970s was caused by the adoption of Keynesianism in most capitalist countries in the post-war period. These economists argue that the crisis was caused by spiralling demands from powerful groups such as trade unions and the welfare lobby, and that those demands were legitimated by the expansive social democratic Keynesian state. The outcome was inflation accompanied by falls in

\(^1\) R. Catley and B. McFarlane (1983), p. 94.
profitability, investment and productivity and, ultimately, economic crisis.\(^2\)

Clark agrees that Keynesianism was in large part responsible for the crisis, but argues that acceptance of an unbalanced budget allowed national growth to exceed the limits of the domestic market. Global overaccumulation resulted from intense competition in the export market, sustained by the policies of national governments and by the easy availability of credit. Australia's economy, geared as it was to primary and commodity exports and manufactures for the domestic market, ensured that it was a victim of, rather than a participant in this process, particularly when foreign exporters began to compete successfully in the Australian market. As the more industrially advanced countries steered their firms toward new growth areas, their energy and raw materials requirements contracted, again leaving Australia, as a commodity supplier, a victim of these changes. The appearance of petrodollars and the rise of the world money markets fed credit which worsened overaccumulation, resulting in a global crisis.

Since Australia had adopted a liberal form of Keynesianism, the country's ability to negotiate its way through the crisis tended to be limited by the acceptance of a circumscribed role for the state in coordinating industrial development. By the mid 1980s Australia's economy was lagging badly in relative terms. The fact that Australia is located in a region where growth had begun to outstrip the rest of the world made its performance look even worse.

Australia finally adopted economic rationalism\(^3\) as the solution to its problems. A key question in tracing Australia’s responses to the crisis therefore is why the Hawke Labor Government decided to do that, and why in 1987? The pressures within the state to adopt a more liberal economic policy framework have always been present but it was not until 1987 that the government vigorously took on those policy prescriptions. This chapter argues that Australia’s failure to generate new investment in export oriented industry had reached crisis proportions when it turned to Japan to forge a new investment relationship. The previous chapter argued that this was the time when MITI was attempting to universalise Japan’s constitutive principles, of strong state and the exclusion of labour. From that perspective, MITI’s advice to inject economic rigour into the management of the economy can be clearly understood as advice for the Australian state to take a stronger role. From the perspective of Canberra’s economic rationalists it sounded like an affirmation of their own policy prescriptions.

There are many factors to be covered in the unfolding of these events, so the development of the argument is broken down into sections. The first section outlines the elements of the global crisis. The second and third sections examine Clarke’s theory of overaccumulation and crisis and the limits of Keynesianism. These three sections together provide a framework for the fourth section, which is an examination of Australia’s attempts to juggle the left Keynesian pursuit of full employment with its own version of liberal Keynesianism which became increasingly difficult as global capital began to overaccumulate. The fifth section examines the Hawke government’s attempts to restructure Australian industry

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\(^3\) The definition of ‘economic rationalism’ adopted here is that of Ewer et al that it is a “more fundamentalist version of economic liberalism than [has] been usual in Australian political life”. Peter Ewer, Annette Stevens and Winton Higgins (1987), p. 18.
and its endorsement of new technology as a growth area, and the sixth section examines their handling of the pressures applied by global capital. The final section deals with Australia's approach to Japan for investment assistance.

**Elements of the global crisis**

The Bretton Woods agreement of 1944 established the institutional framework that underpinned America's bid for western hegemony. The U.S. dollar was established as the international currency and large U.S. contributions to the International Monetary Fund and the World Bank ensured that those agencies were dominated by U.S. perspectives. The Marshall Plan was designed to rebuild European economics so that they would be sufficiently strong to afford U.S. imports and thereby ensure an inflow of dollars to fund America's planned export surplus. The General Agreement on Tariffs and Trade committed countries to trade liberalisation, thereby ensuring penetration by American economic interests. Colonial nations were encouraged to transfer their economic dependency to the U.S. which shored up their access to raw materials and markets, and American military forces were marshalled to prevent the emergence of national capitalism in western Europe and to contain communism.

The result was uneven development across capitalist countries which eventually undermined America's strategy. The excess of fixed capital built up during and after wartime expansion resulted in stagnation of new industry investment in the older industrialised countries, especially America, while aid programs for reconstruction in countries such as

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Japan and West Germany facilitated increasing investment in fixed capital until the 1960s. These countries imported new technologies from the advanced industrialised countries and their small burden of defence expenditure and their close proximity to cheap labour meant that their share of industrial exports rose sharply while that of the older industrialised nations fell accordingly.

The cost of controlling a world organised to meet its own needs became unsustainable for America. Kolko and Kolko argue that the U.S. had miscalculated the cost and effort involved and by the late 1960s they were experiencing balance of payment problems and a weak dollar. Rapid economic growth in Germany and Japan meant that their currencies became undervalued against the fixed exchange rate but, because it was reluctant to put at risk or to increase the cost of its military operations by devaluing, America instead printed more dollars than it held in gold reserves to pay its way. By 1970 America was also running a balance of trade deficit because its investment outflows were exceeding income from its exports. Japan's industrial exports, for example, doubled between 1957 and 1970 while that of the United States fell from 28.7 per cent to 18.9 per cent. Parity between other currencies and the dollar could no longer be sustained and the fixed exchange ratios finally collapsed in 1971.

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7 The Vietnam War must be understood as being part of the larger goal of maintaining world capitalism, but the escalating costs of waging this war became untenable when added to their other global commitments. See Catley and McFarlane (1983), p. 99.  
inflation followed. Inflation was exacerbated by the rise in the cost of oil and the appearance of petrodollars added to the surge in the world money supply.\textsuperscript{10}

Central banks attempted to maintain some co-ordination of economic policies among the major industrialised countries after Bretton Woods, but floating exchange rates weakened their ability to smooth out currency fluctuations. Commercial banks were able to trade on this weakness and soon became the primary mechanism through which the new surplus was accumulated and distributed. Inflation, moreover, had negated the effect of interest rates which encouraged the use of credit while making saving an unprofitable exercise. This resulted in a mismatch of savings and borrowings with banks increasingly relying on investment funds to finance their operations.\textsuperscript{11}

The U.S. dollar continued to be supported by foreign government interventions into the exchange markets to avert uncontrolled depreciation. This allowed the American government to pursue expansionary policies at home while facilitating expansionary policies in other countries. The combined result was simultaneous inflation across all capitalist countries which sustained profits and fed overproduction, which in turn ran ahead of the supply of raw materials precipitating speculation in commodities markets. The petrodollar surplus fed the speculative boom and disturbed the system of international payments at the same time as the increased cost of oil drove up prices. This in turn had the effect of exacerbating the uneven development of capitalism on a world scale. As already outlined in

\textsuperscript{10} Makoto Itoh (1980), pp 155-160.
\textsuperscript{11} M.T. Daly & M.I. Logan (1989), pp. 75-84.
chapter three, Japan's almost total dependence upon imported fuel saw them respond to the crisis by implementing national policies to conserve energy which revolutionised its industrial and technological base and vastly improved its export competitiveness. At the same time, the lack of a coherent set of national policy responses, together with the ready availability of cheap credit sustained unprofitable production in the older advanced industrialised countries, driving up domestic prices and undermining their international competitiveness. World inflation was teetering on the verge of "an uncontrollable upward spiral" and says Itoh, "[t]he overaccumulation of world capitalism was just breaking out".

Itoh did not develop this observation into a coherent theory of accumulation and crisis, and this was a gap into which Simon Clarke attempted to step with his *Keynesianism, Monetarism and the Crisis of the State*. In it he tries to integrate Marx's theory of money and crisis with the cyclical pattern of overaccumulation experienced in capitalist economies, especially Britain. His theory is particularly applied to the post-war pattern of accumulation and the inflationary crisis which paralleled the Keynesian revolution and the monetarist offence. He argues that the crisis of the 1970s was inevitable. Far from solving the boom-bust cycle of capitalism, Keynesian policies, funded by the post-war boom and applied at the national level, exacerbated the tendency to overaccumulation by overcoming the limits of the domestic market. These points are elaborated by examining the core of Clarke's theory before moving on to situate Australia in this context.

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13 Ibid., pp. 341-345.
Overaccumulation and crisis

Clarke's theory of overaccumulation and crisis builds upon Marx's theory of money. Money came in to being to overcome the difficulties associated with barter, where the amount of goods a producer could supply was limited by the necessity to find a producer of a product which he or she needed, who also needed the product he or she could supply. Economists from the classical tradition believe that money served this function well because it has no value of its own and is a mere expression of the value of labour and commodities. Implicit in this view is the belief that the purpose of production is consumption, and therefore money serves to regulate production and exchange - prices rise and fall in accordance with supply and demand. However, Clarke points out, because the purpose of capitalist production is not consumption but profit, neither demand nor the price mechanism serves to limit production.

Clarke argues that under the capitalist mode of production there is in fact an inherent tendency to develop the productive forces without regard for the limits of the market. At the same time there is a contradictory tendency to restrict the consumption power of the masses. This contradiction is expressed in competition, which appears to individual capitalists as a barrier to be overcome. To remain competitive capitalists will attempt to limit costs, especially wages, to revolutionise the forces of production and to expand their market. Uneven development across nations provides opportunities for aggressive capitalists to expand their markets on a world scale. During economic downturns, individual capitalists respond to loss of competitiveness by intensifying domestic production or attempting to capitalise on export advantage. In either case they will borrow to
sustain production rather than go out of business, which exacerbates overproduction.

Credit suspends the contradiction inherent in capitalist social relations. To continue production capitalists must realise their capital in money form. In the absence of buyers they will borrow until capital is realised. In suspending barriers to accumulation, credit gives free reign to overproduction and uneven development. Credit allows accumulation constantly to run ahead of demand. It is in this sense that crisis is a permanent characteristic of capitalist development.15

The limits of Keynesianism

Clarke argues that the 1970s crisis of overaccumulation had its roots in Keynesian policies that were adopted by most capitalist countries to varying degrees in the post-war period.16 Keynesianism was characterised by high levels of state expenditure in support of the economy's productive sectors, stimulation of consumer demand to provide a market for that expanded growth and intervention in financial markets to ensure affordable credit for both investment and consumption. In theory Keynesian policies would allow governments to deliver full employment, rising standards of living through increased wages, and an expansion in the provision of public services. Their ability to do this rested upon the strength of domestic productive capital, particularly its ability to compete successfully in the export market. Expansionary policies would boost the prospects and productivity of firms by facilitating new investment and by improving

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16 Although Keynesian policies were not adopted uniformly across capitalist countries in the post-war period, there was a general acceptance of Keynes' idea that the state could play a role in regulating economic activity and all governments engaged in some level of intervention to smooth out cyclical fluctuations and to increase employment. G. Whitwell (1994), p. 119-120. Also Douglas McFachern (1990), p. 1.
their ability to penetrate new markets. Rising productivity would contain domestic inflation and rising exports would maintain a balance in terms of trade.

In highly competitive export economies the theory held true until the 1970s. Exports and high productivity kept the balance of payments and inflation in check and high profits and new investment provided jobs and expanding revenue for public sector programs. In these countries Keynesian policies were sustained by accumulation rather than the reverse with the control of inflation, not unemployment, as the policy objective. This was evident in the case of Germany and Japan. In less competitive economies the theory did not hold up at all. Keynesian policies were used to sustain unproductive capital as the means of achieving full employment. This was evident in Australia and the United Kingdom. As a result governments in these economies were constantly confronted with balance of payments problems, inflation, the erosion of wages and industrial unrest, and currency devaluations which usually precipitated speculation on the currency. Governments in these countries were forced to alternate between deflationary and expansionary policies as a response to these problems.17

The flaw in Keynes' theory, according to Clarke, was that he focused on aggregate demand and not total supply. There was an implicit assumption in his theory that productive capital could respond quickly and smoothly to variations in demand and if disproportionalities occurred they were the result of irrational decisions by individual capitalists. What Keynes did not realise, says Clarke, is that individual capitalists do not reallocate productive capacity as a response to...
reaching the limits of the market. What individual capitalists experience is competition, and they respond to it by whatever means is at their disposal to overcome that barrier. Overaccumulation and crises occur because competition intensifies production "so that accumulation constantly runs ahead of the growth of the market". 18

Clarke argues that this flaw meant Keynes believed that any disproportionailities between supply and demand would be only transitory and that international credit could fund state deficits until supply once again aligned with demand. Inflation was likewise thought to be a temporary phenomenon which would also disappear when a state of equilibrium was restored.19

The argument is important more for what it identifies than for its interpretation of Keynes. Clarke ignores Keynes' acknowledgement of the importance of planning and government controls over investment.20 He instead argues that Keynes' reliance on the efficiency of the market mechanism made his theory palatable to mainstream economists who turned it into their own version of liberal Keynesianism. He also reduces the revolutionary potential of Keynesianism to "radical implications" drawn by some thinkers who soon capitulated to the "neoclassical synthesis".21

Despite the way he gets there, Clarke's identification of Keynesianism as conceptualised by mainstream economists is important. As

18 Ibid., p. 239.
19 Ibid., p. 283.
20 Keynes speculated that "a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment". See The collected writings of John Maynard Keynes (1973), Chapter 24, 'Concluding notes on the social philosophy toward which the general theory might lead', p. 372.
accumulation on a world scale exceeded the limits of the market, says Clarke, they offered no "alternative means to secure the restructuring of capital in the face of [the] crisis of overaccumulation than the classical deflationary mechanism".22

The historical resolution of economic crisis is to allow a clean out of unproductive capital. When the 1970s crisis of overaccumulation first hit national governments this was not considered to be an acceptable option because of the general commitment to full employment. This commitment was underscored by a strong trade union movement in most countries, and while a clean out of unproductive capital may have been a good thing for the economy as a whole, particularly in those countries which had propped up unprofitable enterprises through industry protection, those businesses would clearly also resist that as a solution.23

The crisis therefore appeared to governments as a problem of economic management - how to control inflation and encourage investment without increasing unemployment? Inflation puts pressure on a nation's balance of payments, especially in those countries where productivity is low and therefore incapable of offsetting rising prices. Inflation undermines the currency and deters investors, and low investment in turn exacerbates lack of competitiveness. Investment clearly needed to be encouraged but any attempt to control inflation by reducing employment would result in increased industrial conflict. Governments experimented with incomes policies aimed at controlling wages, allowing profits to rise to facilitate new investment, but the

22 Ibid., pp. 283-284.
limits of liberal Keynesianism had been reached and they were forced to choose between the maintenance of full employment and the management of inflation. They chose the latter. Under the influence of monetarists, they sought to weaken union power to ease the political fallout from abandoning the full employment objective. The problem of low investment was not resolved and remains a problem in the 1990s, especially for Australia.

Clarke's primary concern lies with Britain and in demonstrating how that country fits into his theory of global overaccumulation. There are difficulties associated with extrapolating from a theory which positions any one country at its centre, but Clarke's identification of the imperatives which drive overaccumulation are important. Australia had positioned itself to benefit from the reorganisation of global trade in the post-war period and as global capital became increasingly overaccumulated, the weaknesses in Australia's industry structure were continually revealed. In Australia's case liberal Keynesianism did sustain unproductive capital which did leave successive governments with the on-going task of managing inflation, balance of payments problems, industrial unrest and currency fluctuations. This background is important because it maps out the broad parameters which have continued to define policy responses. For example, ambiguities about the extent to which government should intervene, and the limited form of intervention which it had adopted (protection), left the apparatuses of the state ill-equipped to take a more comprehensive and coordinated role when the Hawke government came to office in 1983 with its interventionist industry agenda.

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Bell argues that the emphasis given to protection precluded any concern about the direction of industrial growth which was left to the market to determine. This reflects the tension which has always existed in Australia between the role of the market and the role of the state. If this tension has always existed, what then tipped the scales in favour of the market in the mid 1980s despite the government's apparent commitment to interventionism? On the one hand, overaccumulation of global capital had facilitated the expansion of global money markets which applied pressure to national governments to liberalise the financial sector. On the other hand, overaccumulation had forced a reevaluation of the liberal Keynesian approach to industry policy which had been occurring during the 1970s. The pressures peaked and converged with the election of the Hawke government. Despite giving in to pressures for reform of the financial sector, the Hawke government did not capitulate to the free market approach to industry policy until economic decline had reached 'Banana Republic' proportions in the mid 1980s.

Because the key problem was declining industry investment, a new investment relationship with Japan was actively sought by the Hawke government to revitalise Australia's industry structure. Japan looked Australia over and offered the MFP as a vehicle for Japanese investment, but they laid down preconditions. The following section will argue that those preconditions resonated with the policy preferences of the free market advocates and reinforced the government's acceptance of economic rationalism as its guiding philosophy.

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Australia in the postwar period

The debate over the type of intervention notwithstanding, there is no doubt that throughout Australia's history the government's presence in the economy has been significant.27 Keynesianism, however, gave a new rationale to interventionism. After the war government was charged with a new level of responsibility for managing the economy, which found expression in the commitment to full employment. The way was cleared for the realisation of this objective with a general acceptance by policy makers that employment had to be central in the formulation of policies to stabilise wages and prices.28 In 1945 the Labor Government's White Paper on Full Employment in Australia embraced the 'Left Keynesian' objective of raising mass consumption to stimulate growth and employment. It should be noted, however, that although the White Paper was hailed as precipitating the Keynesian revolution in Australia, it followed the liberal Keynesian pattern identified by Clarke in that it ignored Keynes' warning that investment should not be left solely in the hands of the private sector.29 It relied instead on the ability of compensatory government expenditure, regulation of credit and interest rate policy to stimulate demand-led investment.30

Australia's economy historically has been rural based, which has meant a heavy reliance upon imports of industrial goods. A manufacturing sector had been encouraged early this century to provide jobs and some import replacement, but it was the government coordinated war effort that saw manufacturing's share of GDP increase significantly - from 15.5 per cent in 1933-34 to 25.2 per cent in 1949-50.31 The Curtin-

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30 Ibid., p. 47. See also Carol Johnson (1989), p. 19.
Chifley Labor Government expected manufacturing to contribute in large part to the goal of full employment in the post-war period and to this end the Secondary Industries Commission was charged with formulating policies for industry development. These included tariff protection, immigration and the encouragement of foreign investment to build upon and strengthen industries which had been established during the war. Keynesian policies would stimulate demand and feed the growth of manufacturing industry as a whole.

By 1954 even these limited forms of interventionism had begun to lose favour and the pre-Keynesian preference for free market principles were reemerging. Economic policy during the fifties and sixties under Menzies continued to be demand-led but economic stop-go management was ad hoc with reforms tending to be in response to political pressure rather than being guided by any planned growth strategy. The Vernon Report of 1965 recommended the adoption of longer term planning to overcome the negative effects of stop-go policy making, but Treasury and some elements of the Liberal Party were committed to a more laissez faire approach to economic management. Country Party leader John McEwen favoured subsidisation of the rural sector and later, as the rural population declined, higher levels of protection for manufacturing industries particularly in decentralised areas. As McEwen was less concerned with the form than the fact of growth, no planning or coordination of the manufacturing industry was

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McEwen’s policy of ‘protection all round’ had the support of the Labor Party and unions because they believed that a protected manufacturing sector would guarantee jobs and deliver relatively high wages. Such extensive support of the policy meant that protection levels remained high and industry’s dependence on protection continued to be tolerated.

The Vernon Report acknowledged the benefits of tariff protection in the development of Australian manufacturing industry, but recommended that protection levels be linked more specifically to industry development and industry efficiency. In 1971, under the Chairmanship of G.A. Rattigan, the Tariff Board began the first systematic review of protection levels with a view to upgrading industry efficiency. Under the Whitlam Labor Government the Tariff Board was transformed into the Industries Assistance Commission (IAC) in 1973 and protection was cut 25% across the board. Capling and Galligan argue that the government’s rationale for doing this was the control of inflation which had accelerated through 1973 to peaks not experienced since the 1952 Korean boom. The decision fitted with the freer trade objectives of the new IAC commissioners, but it also intersected with the global overaccumulation of capital and the limits of liberal Keynesianism as a growth strategy in Australia. The Keynesian objective of full employment could not be sustained without propping up uncompetitive industry and uncompetitive industry could not be protected in the face of increasing balance of payments pressures resulting from global overaccumulation. As liberal Keynesianism

40 Committee of Economic Enquiry (1965), pp. 402-403.
became less tenable as a growth strategy, governments became increasingly trapped in a policy vacuum - overaccumulation demanded policy responses but liberal Keynesianism defined policy limits.

By 1973 most OECD countries were experiencing an economic boom resulting in increased prices for internationally traded goods. Although Australia as a commodity supplier benefited from this, the concurrent increase in food prices (21 per cent in 1973) resulted in a worsening of inflation. The Whitlam government's response upon taking office was to revalue the dollar by 7.05 percent in December 1972, by a further 4 percent in April 1973 and again by 5 percent in September that year. It imposed a 25 percent variable deposit requirement on overseas borrowings in December 1972, within two months had extended it to all forms of capital inflow and in October 1973 had increased the deposit requirement to 33 percent. Whitlam claims that while these anti-inflationary measures, including the 25 percent across the board tariff cut, "modified the concept and its application", they did not weaken the Labor government's commitment to Keynesian interventionism. In recognition of the hardship that would accompany the 25 percent tariff reduction, a $25 million package was announced to assist affected firms and employees. As it turned out the government's anti-inflation strategy was confined to this type of non-budgetary action, with inflation in fact providing extra tax receipts to fund increased government expenditure.

42 Gough Whitlam (1985), pp. 186-188.
43 Ibid., p. 189.
44 Ibid., p. 185.
Although monetarist theories linking reductions in inflation to a 'natural' rate of unemployment were beginning to gain currency in some policy circles in Australia, the government's policy response to unemployment was to pump-prime the economy. During Cairns' period as Treasurer he said that "he would be happy to go on printing money as long as it meant finding a job for one unemployed person".47 Although after Hayden became Treasurer, the policies of the Whitlam Labor Government took a deflationary turn, unemployment remained the government's primary focus of concern with the control of inflation a means to that end. Whitlam had been criticised widely for the decline in private sector investment, largely as a result of the 25 per cent tariff cut, but Hughes argues that Whitlam's earlier expansionary policies in reality had served to slow down the decline of private investment which "was already in a deep tailspin".48

While Whitlam hoped that the short term spin-off from reduced tariffs would be reduced inflation, his longer term objective was to create a more efficient industry structure.49 The industry structure that had been built up under the protective arm of government in the post-war years was largely foreign-owned, with foreign firms establishing themselves behind the high tariff walls. By 1972 only about half of the largest manufacturing firms were Australian owned. Foreign investment had been actively encouraged to promote capital investment and new technology and to relieve pressure on the balance of payments. Despite the benefits which the Vernon Report acknowledges, such as its contribution to employment and to national productivity,50 foreign

47 Dr. Cairns cited in Ibid., p. 27.
48 Barry Hughes (1979), p. 34.
50 Committee of Economic Enquiry (1965), p. 278.
investment has been blamed for creating an inward looking and backward industry structure. Bell summarises these arguments as the tendency for foreign subsidiaries to: rely upon the parent company to carry out research and development and marketing innovations and which therefore do not benefit the host country; target the host market rather than develop strategies for export; be significant importers; draw upon local capital for investment rather than draw in foreign capital, and to underutilise plant, resulting in low productivity. The inward focus of foreign owned firms did little to spark a competitive spirit among Australian owned firms as Crough and Wheelwright have noted:

The large transnationals which were allowed to spear-head industrialisation had no reason to care whether their local plants were badly sited, their technology outdated, and their tools and machinery second-hand cast-offs from the parent company; they only had to sell in the home market in competition with the locals, and suitable protection could usually be arranged with little difficulty to ensure profitability, irrespective of efficiency.

Bulbeck argues that when foreign companies established branches in Australia they became major proponents and beneficiaries of protection, but as their headquarters reorganised production to benefit from cheap Asian labour in the 1960s and 1970s their needs changed. They, like the mining sector, now became free trade advocates. Changes in the structure and ideology of Australian tariffs, she argues, primarily reflect those interests. Motor vehicle and textile clothing and footwear industries were large employers and popular support for the continuation of protection for those areas modified the downward pressure on tariffs applied by foreign capital.

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While both these pressures undoubtedly influenced policy decisions about appropriate levels of protection, it was also because Australia's manufacturing sector was in decline at a time that manufactures were making a growing contribution to global trade, that Whitlam refused to restore tariffs. Instead he implemented import quotas for selected industries to engender a competitive spirit in industry\textsuperscript{54} and, like his predecessors Curtin and Chifley, relied on the provision of government advice to industry as the primary means of influencing investment decisions.\textsuperscript{55} He was firmly of the belief that the effect of tariff reduction on employment was negligible and was in line with his government's commitment to maintaining employment while managing inflation.\textsuperscript{56}

Both inflation and unemployment peaked in June 1975 and were declining by the time Fraser took office in December that year. Hughes argues that Fraser's 'fight inflation first strategy' combined a coalition of ideas that formed the basis of Australia's continuing economic policy. These ideas were firstly, to cut government spending to reduce inflation, this would allow the economy to recover and unemployment would thereby also fall. Secondly, a smaller deficit would mean reduced government borrowing which would allow interest rates to fall thereby stimulating investment. Thirdly, the fall in inflation would improve Australia's export competitiveness.\textsuperscript{57} He introduced a number of generous concessions, subsidies and allowances to promote investment, and removed controls to facilitate foreign investment in the mining industry, which was also targeted with generous incentives.

\textsuperscript{54} Ann Capling and Brian Galligan (1992), pp. 109-110.
\textsuperscript{55} Carol Johnson (1989), p. 57.
\textsuperscript{57} Barry Hughes (1979), p. 41.
Fraser also believed that rising wages had contributed significantly to inflation and needed to be brought under control. He therefore sought to introduce a tougher industrial relations climate and an end to full wage indexation. By 1978 inflation had halved from its peak in 1975 but, contrary to government expectations, private sector investment had not expanded. Instead production had fallen and unemployment had increased by 50% on the June 1976 figures.58

The Jackson Report of 1975 identified the need for industry restructuring and this was endorsed in 1979 by the Crawford Report which recommended a more concerted approach to the issue.59 The Crawford Report emphasised the need to develop an efficient export oriented manufacturing sector and recommended the adoption of a "key attributes" approach to industry policy. Bell argues that the virtue of this approach was that it facilitated the provision of state support on a relatively neutral basis between industries rather than targeting key industries, and made it more palatable to those who favoured less government direction.60 The Crawford Report also recommended the adoption of positive assistance measures which, as we have already seen, were implemented by Fraser. Although there was an obvious shift away from the traditional approach to industry policy during this period, Fraser's energies were primarily directed toward stimulating investment via an expected new 'resources boom'. He campaigned successfully in 1980 on that basis but it failed to materialise, partly

58 Ibid., p. 43.
59 Study group on structural adjustment (1979). Note that the Whitlam Government had also commissioned a report on manufacturing (Policies for Development of Manufacturing Industry: A Green Paper, AGPS, October 1975 - The Jackson Report) but had lost office by the time the report was published. Apart from endorsing the report's recommendation for industry restructuring, which was embodied in the 1977 White Paper on Manufacturing Industry, its recommendations were largely ignored by Fraser. See Peter Ewer, Winton Higgins and Annette Stevens (1987, p. 20. Also Stephen Bell (1993), p. 82.
60 Stephen Bell (1993), pp. 93-94.
because the world boom of the early seventies which had fuelled
demand for Australia's minerals had passed and partly because of the
reduced reliance upon raw materials as a result of technological
advances in countries such as Japan. Lowe argues that Fraser's
preoccupation with the mining sector cost Australian manufacturing
dearly. Increased mineral exports served to strengthen the Australian
dollar, which made imports more competitive at the same time that the
manufacturing exports of Australia's trading partners were highly
competitive anyway. Had Fraser's promised resources boom taken off,
increased exports of minerals would have alleviated the pressure on
balance of trade, but the cost would have been a steeper decline in
Australia's manufacturing sector. Ravenhill argues that

[w]hen the anticipated resources boom at the end of the 1970s failed to
materialise, governments finally came to appreciate that the principal
economic problem facing Australia was that its export specialisation was in
commodities of decreasing importance both in international trade and to the
world economy generally.

Hawke, restructuring and global capital

When the new Hawke Labor government was elected in 1983 it took on
the task of industry restructuing. As President of the ACTU, Hawke
had been on both the Jackson and Crawford committees and brought to
his term of office as Prime Minister a belief in the need for positive
industry assistance to promote new investment and the development of
export markets. However, the government's strategy for tackling the
problem of industry restructuring began while the party was still in

62 Usually referred to as the 'Gregory effect'. Lowe (1989), pp 113-114. See also Joseph Halevi and
opposition in 1979 at the ALP National Conference with a proposal to develop an incomes policy to fight inflation. By the time it was implemented in 1983 as the Accord, the policy had been broadened, at the insistence of the Amalgamated Metal Workers Union, to encompass a new approach to industry policy including a program of industry restructur- ing to create a diversified export-oriented manufacturing sector as the means to restore full employment.65

In brief, the Accord was a bipartite agreement between the ALP and unions. Wage claims, limited to CPI increases, would be guaranteed by unions in return for government's commitment to improve the social wage and to implement an interventionist industry policy to ensure that improved profits would be reinvested in Australian industry to provide jobs.66 Some institutional reform would underpin the policy, such as the establishment of the Economic Planning Advisory Council and a revamped Australian Manufacturing Council, both tripartite bodies, to guide industry development. A review of the Industries Assistance Commission would be undertaken as well as a review of both industry finance and foreign investment guidelines.67 A Prices Justification Tribunal would be established, industrial democracy would be encouraged and a national superannuation scheme implemented.68

In response to claims that this was yet another example of the big-government approach typical of the ALP, Hawke announced in 1984, without consulting cabinet, that government would not increase taxation, government expenditure or the budget deficit as a percentage

of GDP. This commitment (the Trilogy) undermined the social aspects of the Accord.\textsuperscript{69} The ability of the Accord to reduce unemployment was undermined by an absence of any attempt to guarantee that improved profits as a result of wage restraint would be tied to productive investment. McEachern says that both the Accord document and the Summit Communique

\begin{quote}
are vague and ambiguous, and rely on the goodwill of business in the rational pursuit of its own interests in the marketplace, where it is apparently assumed that competition would compel profits to be spent on productive investment.\textsuperscript{70}
\end{quote}

Although the Accord did facilitate a transfer from wages to profits,\textsuperscript{71} its failure to spell out the links between profits and investment meant that the government’s promise to restructure industry was also undermined.

While the primary focus of industry restructuring was to move away from export specialisation in commodities and to promote export in manufactures, Barry Jones, as Shadow Minister then Minister for Science and Technology, worked hard to encourage the ALP to accept the imperative of high technology, particularly the need to develop 'sunrise industries' as the solution to Australia’s economic problems.\textsuperscript{72} He believed that high value added exports would at once address the problem of Australia’s inability to compete in mass consumer markets which had become dominated by the low wage NICs, as well as providing the means to pay for Australia’s increasingly expensive imports. In other words, high value added, high technology exports would supplement earnings from commodities and even out Australia’s

\textsuperscript{71} Frank Stilwell (1986), p. 51.
balance of payments problem. The Labor Party embodied this commitment in their 1983 Science and Technology Policy which said that:

[the technological base of Australian industry has barely changed since the 1950s while our industrial contemporaries (such as Japan, Singapore, Sweden) have undergone a revolution. It is a matter of urgency that Australia take steps toward developing new high technology 'sunrise' industries.]

The importance of new developments in science and technology has always been recognised in Australia because of its need to develop communications and transport infrastructure as well as to build a viable defence force. Public funds were pumped into research facilities such as the CSIRO but no attempt was made to foster technological application by industries until the 1970s. Kolm argues that the dependence of Australian industry on foreign investment and technology transfer meant there was little or no domestic demand made of public research institutions. Rather, they were focused on the concerns of the international research community than on the concerns of domestic industry. The two sectors, he says "had become locked into separate matrices".

The 1970s had seen a more concerted effort at nurturing practical spin-offs from research institutions. Under Fraser the Australian Science and Technology Council (ASTEC) was given permanent status as an advisory body to the Prime Minister in 1978 and the Committee of Inquiry into Technological Change in Australia was commissioned.

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75 Their report was published as Technological Change in Australia, (The Myers Report).
Fraser also established a Department of Productivity in 1976 whose purpose it was to stimulate technological innovation in industry.\textsuperscript{76}

While Fraser had laid some of the groundwork for a technology policy, Jones' efforts ensured that new technology was central to the Hawke government's strategy to promote economic growth. The government attempted to foster a venture capital market in Australia by introducing the 1983 Management Investment Companies Scheme that was to guarantee funds for private innovation. In 1984 they attempted to integrate technology and industry policy by transferring the policy arm of the Department of Science and Technology to the Department of Industry and Commerce. In 1985 they introduced a 150\% tax concession for research and development and cut back funding to public research institutions. The overall aim was "to ensure a greater commercial orientation of the national science and technology effort".\textsuperscript{77}

It has been argued that the government also deregulated the financial sector to rid it of rigidities believing that diversifying access to sources of capital would both allow a more adaptable system to emerge and facilitate new investment in Australia.\textsuperscript{78} There is some contention, however, about whether the decision to deregulate was made on as rational grounds as this implies. It is therefore worth digressing a little to examine the processes which led to that decision, since it was influenced by the overaccumulation crisis which had a significant impact upon the government's ability to implement its national development policy.

\textsuperscript{76} P. Couchman (1992), p. 24.
\textsuperscript{77} Ibid., p. 25.
The float of the dollar

It has already been shown that inflation and the petrodollar surplus of the early 1970s combined to produce a surge in the world money supply. As industry based multinational corporations (MNCs) spread in search of cheap labour, subsidies and tax concessions, banks established networks to cater to their needs and became the first of the service based MNCs. In the international arena these financial conglomerates were free from the regulatory controls of national governments and, fed by the power of the Euro-dollar market and the world money surplus, they became very powerful. As their power grew, the ability of national governments to regulate money flows declined. Money moved across time and space instantaneously to benefit from fluctuations in exchange rates in the form of financial futures markets.

The interlinkage of computer and telecommunications technology facilitated the calculation, analysis and transmission of data in seconds. The establishment of dealer networks such as Reuters, Telerate and Quotron formed a global network which provided information on foreign exchange, money market and commodities rates as well as Euro-bonds and other financial information.\(^{79}\) Strange argues that the international financial system increasingly represents a gambling hall, with the role of bankers and brokers being little different from that of croupiers. Uncertainty now rules the financial world, she says, and governments no longer have the ability to control their economies.\(^ {80}\)

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\(^{80}\) Susan Strange (1986), pp. 1-3.
Bryan argues, however, that it is wrong to assume that capital mobility undermines the power of the nation state. It may diminish national autonomy, he says, but not its power, since in the case of Australia, the state "actively implemented policies to facilitate this mobility".\footnote{D. Bryan (1989), p. 60.} These policies included the removal of restrictions on Australian investment overseas in 1982, the float of the dollar in 1983 and the lifting of restrictions against registration of foreign banks in 1985. The float of the Australian dollar on 9 December paved the way for the deregulation that followed and that decision must itself be put in context.

On 8 December 1983 the Reserve Bank telephoned Paul Keating, then Treasurer, with the news that international financiers had targeted Australia with speculative funds amounting to about $800 million. This was enough to increase the nation's money supply by 1% which would send interest rates tumbling and throw monetary policy into chaos. The markets had been applying pressure for some months prior to this date, which had resulted in the devaluation of the Australian dollar by 10%. The markets had interpreted this as a sign of weakness and speculation increased. They were bidding the price up and "creaming off a risk-free profit". Government was not able to control speculation by adjustments in the forward and spot rates because banks were buying Australian dollars by day and selling at night. According to Hywood, "global markets had prevailed over national borders and it was time for Canberra to concede defeat".\footnote{G. Hywood (1989), p. 19.}

McCarthy and Taylor argue, however, that the float cannot be understood simply in terms of response to pressure, but must be
understood as part of a wider strategy by government to use the market itself as the mechanism by which economic restructuring could be achieved.\textsuperscript{83} They argue that the Hawke government deliberately adopted deregulation as a policy strategy because the alternatives were politically unattractive. These alternatives, summarised briefly, were:

\begin{itemize}
  \item to retain existing policy and to fix the value of the dollar below market trends to alleviate the effects of the speculative threat, but this option had been used in the past with negative electoral consequences.
  \item to revalue, but this would have encouraged further speculation.
  \item to extend existing regulations, but this would have further strained existing monitoring mechanisms which were already breaking down.\textsuperscript{84}
\end{itemize}

Despite these problems they argue that the decision was not inevitable, and to support their argument, point to Fraser's failure to implement deregulation despite his commitment to free market ideology. They emphasise the personal convictions of Keating and Hawke as important factors in the policy decision.

The usefulness of McCarthy and Taylor's argument is their identification of deregulation as a policy mechanism. Hawke and Keating, unlike Fraser, were committed to the Accord which had as its \textit{raison d'être} the restructuring of Australian industry. When the Hawke government came to office it was confronted for the first time with the reality of implementing national policy in a context where financial MNCs, which had the ability to apply pressure for the liberalisation of

\textsuperscript{84} \textit{Ibid.}, pp. 4-6.
markets, were among the key players. This was fundamental to Keating’s changed argument that increased regulations would not control market distortions but create them.\(^ {85}\) As a result of these factors, by the end of its first year of office the Hawke government found itself in the contradictory position of implementing an interventionist industry policy, as part of the Accord commitment, under free market conditions.

When deregulation occurred investment did start to expand but was aimed at productivity rather than capacity, and for real estate investment and corporate take-overs rather than for boosting export revenue.\(^ {86}\) Growth was also reflected in a surge of imports, coinciding with a downturn in the world commodity price cycle. This caused a blow out in the current account deficit and a rapid increase in Australia’s foreign debt.\(^ {87}\) Grants for research and development had become “an incentive to spend money rather than to perform R&D”\(^ {88}\) and Macdonald argues they had become little more than protection in another guise.\(^ {89}\) Domestic competitiveness did improve somewhat in relation to depreciations of the dollar in 1985 and 1986 and this led to some improvement in the current account\(^ {90}\) but it was clear that the underlying rigidities in the structure of Australian industry remained and business was not taking up the challenge to restructure. The extent of the problem was starkly apparent in statistical data. Bell says Australia’s

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\(^{85}\) Ibid., p. 12.


\(^{90}\) F. Gelber (1990), pp. 63.
ranking as a global exporter had fallen from eighth in 1950 to twenty-third in 1985. It was also pointed out that in 1985 Australia needed to export 75 per cent more by volume than it did in 1955 just to fund a given level of (largely manufactured) imports and that our current account deficit had ballooned alarmingly since the early 1970s.91

The evidence of Australia's relative decline, prompted Keating's now famous "Banana Republic" statement in 1985. Government clearly had to rethink its strategy. It was at shortly after this that Australia made the catalytic decision to approach Japan for help.

**Japan - a friend indeed!**

During a visit to Japan in May 1986, Prime Minister Hawke reached agreement with Prime Minister Nakasone to arrange exchange visits between their two countries to consider opportunities for Japanese investment in Australia. In November that year Senator Button, heading a team of about fifty Australian executives, led Australia's Investment Environment Survey Mission to Japan. Their purpose was "to contribute to the promotion of new industrial co-operation between Japan and Australia".92 The Button mission targeted automotive components, biotechnology, computer software, processed minerals, wool processing and textiles, telecommunications equipment and processed food.93 The return visit was made by Japan in February 1987 and in May that year a report was produced called *The Australian Investment Environment: Foreign Investment Environment Survey Mission Report*. The Japanese mission was led by Haohiro Amaya, Special Adviser to MITI and Deputy Leader Isao Hiroe, Executive Vice President

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of Marubeni Corporation. They brought with them to Australia sixty business and senior government representatives.94

It is apparent from the Amaya Mission Report that there was considerable expectation from the Australian side that Japan would be able to assist with Australia's investment problem. Amaya says,

[r]eorganizing Australia's home market oriented manufacturing sector into an export orientated one is a mammoth undertaking. The Australian Government and private sector both place great emphasis on industrial co-operation with Japan as a means to succeeding in this formidable task... Will Japan be able to realize Australia's expectations? From the long range national viewpoint, it must certainly do everything in its power to respond to them.95

and,

... Japan should consider sincerely the invitation to co-operate with Australia at this time. Since a friend in need is truly said to be a friend indeed, in the long term national interest, I believe it is extremely important that Japan prove itself as a true ally of Australia.96

There can be little doubt that policy makers in Australia at that time would have been aware of the international pressure being applied to Japan to take some kind of political role in its region commensurate with its enormous economic influence. It would appear that they felt that Australia could take advantage of this opportunity. Similarly, there can be no doubt that they understood that the relationship between government and business in Japan was such as to be able to furnish the means by which increased investment in Australia could be secured. In other words, if it was in Japan's national interest to be seen to be lending a helping hand to Australia, then it would be within the

94 Ibid., p. 12.
96 Ibid., pp. 19-20.
ability of the national administration to secure an appropriate commitment from its business sector. The convergence of Australia's economic problems, the pressures upon Japan to take some regional responsibility and their large current account surplus can only be explained as a fortuitous set of circumstances which Australia would have been foolish to ignore. If Australia could secure investment, particularly from Japan's powerful transnational corporations, and at the same time secure technology transfer and Japanese marketing expertise, Australia's economic prospects would look decidedly brighter.

The Amaya Mission Report is 328 pages long excluding photographs, appendices and material supplied by the Australian government. It gives a thorough breakdown of Australia's investment background, including the state of the Australian economy, current Industrial and Foreign Investment policies, a breakdown of Australia's financial institutions, interest rates, foreign exchange controls and taxation policies. It also includes background surveys on labour relations, raw materials, support industries, marketing, resources and energy, infrastructure, living conditions and of the investment environment in each state. The Mission Report also includes industry surveys, covering computer software, communications equipment, automotive parts, food processing, new materials, biotechnology and the resort industry. The Mission's Principal Terms of Reference were to observe:

a. The current environment and future prospects of direct investment in Australia.

b. Australia's economic climate and industrial structure.

d. The current state of Australia's foreign investment policies, and areas of concern.

c. The state of infrastructure in Australian industry.

f. The business climate for established Japanese, and other western firms in Australia.

The Mission Report makes specific reference to the problems Australia has in commercialising its research and development. It says, "to aid this, investment from Japan is anticipated". The terms of reference were supplemented by Japan to specifically address this. The additional terms of reference are to examine:

- the current state of high technology research and development in Australia.
- the problems involved in industrializing these technologies, and
- the possibility of industrial co-operation with Japanese firms.

In the midst of all of this, the MFP proposal was made. In January 1987 at a relatively routine meeting on Australia/Japan relations, MITI tabled a two page document entitled *A Multifunctionropolis Scheme for the 21st Century*. It says in its introductory paragraph that "[t]he endeavour will act as a flagstaff to indicate the roles to be taken by both our countries -- Australia, which in its bicentennial year is aiming for progress in a new direction, and Japan, of which more contribution towards the international community is demanded". It cannot be simply coincidence that the proposal was made at this time.

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A more detailed *Basic Concept* document was produced in September 1987. The document specifically addressed high tech industry including biotechnology, new materials and rare metals, computer software and resort facilities, with supporting infrastructure including medical and health care, education and training, and information and transport systems. The 'fit' with the priorities of the investment mission exchange is no accident, because it was during the visit of the Amaya Mission to Australia in February 1987 that the project was first discussed in detail. The targeted industries clearly were those that MITI felt would attract most investor interest in Japan.

When the Mission Report arrived in May 1987, apart from the friendly and responsive overtures, it includes some quite specific prescriptions about what Australia needed to do to secure Japanese investment. Amaya leads gently into this:

> The most effective way of correcting Japan's excessive current account surplus appears to be to encourage direct overseas investment. However, a problem exists here in deciding the location and total value of a project. In the course of such decision making, attention has to be given to the values and sense of responsibility among the citizens of potential business partners, the calibre of their politicians, bureaucrats and industrialists, the work ethic of the labour force and the state of labour-management relations. ...

But then gets more pointed:

> Basically I feel that the quality of Australia's 'social software' is high, but because Australia has seen itself as the lucky country for such a long time, the management of its economy has lacked rigour. (emphasis added)

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100 Ministry of International Trade and Industry (1987b), p. 4. Upon request for a copy of the Amaya Mission Report I was told by a DITAC official that it had nothing to do with the MFP despite MITI's admission that it was during that visit that the first working level meeting between the two countries on the MFP was held. It is also interesting to note that Walter Hamilton says that DITAC officials "took the view that the report was potentially damaging in the hands of the Australian media and sought to minimise its impact" (Walter Hamilton (1991), p. 13).
The important thing to consider here is whether a nation's faults are so grave as to render it too great a risk. ...

Australians believe that recent efforts have smoothed industrial relations and given their manufacturers a keener advantage in export markets. To foreign eyes, however, their current standing is still less than fully convincing. ...

Australia is like a swimmer who has learnt to swim in the pool of a luxury hotel; it now has to change its attitude if it is to swim and not sink, in the Pacific Ocean. ... People ... may claim to be excellent swimmers at Bondi Beach, and since Bondi is part of the Pacific, they claim competence in the whole ocean. Be that as it may, such an attitude is not reassuring to sceptical overseas investors. ...

The greatest obstacle to investment in export orientated projects in Australia is the fact that Australia's manufacturing sector has not endured the rough winds and seas of the Pacific and has consequently tended to underestimate the difficulties involved. If Australia is serious about fostering a manufacturing sector with an internationally winning edge, then there must be further adjustment of the philosophy, logic and mechanisms behind the current system for wage determination. But this is just the beginning. In fact, the lucky country good life imbued with its 'take it easy' motto and 'happy-go-lucky' solutions must be re-examined. ...

If Japanese managers can convey accurately and patiently to their Australian employees how much effort and sacrifice is required to manufacture an exportable product, it may be possible for the Australian labour force to acquire the necessary 'Export Culture'.

The MFP project, neatly targeting the areas of most interest to Australia, appears to have been presented as a kind of test of its ability to respond to their challenge.
The government rapidly set to work in creating 'rigour' in the management of the economy. On the 14 July 1987, on what Pusey calls "the formal restructuring of Bastille Day",102 Hawke made some unexpected and sweeping administrative changes. He reduced the number of public service departments from 27 to create 13 super departments and abolished the Public Service Board. Pusey says "the restructuring was presented and justified by the Prime Minister in strongly managerialist terms that stressed the opportunities that the reforms would provide 'for improved budgetary and corporate management processes' and the like".103 This was the first of a number of significant changes that departed from Labor's traditional philosophy. Another was industry deregulation which was pursued doggedly from July that year, aimed at creating market efficiency.104 Industry deregulation targeted the oil, wheat, railway and airline industries and made changes to company merger regulations. The government also attempted to remove other impediments to efficiency through micro-economic reform targeting inefficient work practices, poor management practices, low productivity, low returns on capital investment and poor pricing policies in the private sector. They transferred the Industries Assistance Commission (later the Industries Commission) to Treasury after which it pressed for faster tariff reform. Also targeted were public sector inefficiencies, particularly in transport, communications and electricity utilities and railways. Government Business enterprises were encouraged to adopt competitive commercial practices and a progressive program of privatisation was pursued. Some of these changes took time to implement because of resistance of the traditionalists within the

102 Michael Pusey (1990), p. 146.
103 Ibid., p. 146.
Labor party, but by 1990 acceptance had been largely won.\textsuperscript{105} Government also introduced the user-pays principle to Medicare, pensioner prescriptions and to tertiary education in the form of HECS. A two-tiered system of wage determination was introduced in 1987 which was a first step toward a wages system which would take account of productivity and efficiency improvements.\textsuperscript{106} As Emy notes, all these reforms were focused on creating a more efficient industry structure and on better integration with the global economy.\textsuperscript{107} He says that Labor's agenda after 1987 marked a victory for the economic rationalists.\textsuperscript{108}

Many analysts have attempted to explain Labor's turn to market solutions to tackle Australia's economic problems. Pusey took centre stage in the debate in 1991 with his \textit{Economic Rationalism in Canberra} which argued that the Senior Executive Service had been captured since 1982 by economists trained after the post-war economics curriculum had changed to have a much narrower focus on methodological and quantitative problems. Pusey says that in 1986 71 per cent of the SES staff of the three central agencies of Treasury, Finance and Prime Minister and Cabinet fell into this category and further, that these economists tended overwhelmingly to favour "an economically rationalist orientation to policy and government", deregulation of the labour market and "busting the unions".\textsuperscript{109} He further argues that since these bureaucrats are involved not only in policy formulation and implementation, but in the interpretation of interests and in the "articulation of ideals and goals", they are in an

\textsuperscript{105} Ibid., pp. 78-82.  
\textsuperscript{106} Ibid., p. 91.  
\textsuperscript{107} Ibid., p. 76.  
\textsuperscript{108} Ibid., p. 32.  
unprecedented position to shift the policy focus from state coordination to market coordination.\textsuperscript{110}

There is no disagreement about the fact that policy took a decided turn toward economic rationalism during Hawke's term of office. Beilharz for example says that it is important "to recognise that Labor is, and has been, the key actor responsible for the introduction of economic rationalism into Australia".\textsuperscript{111} But all policy decisions cannot be reduced to the influence of senior public servants. As Schott argues "[m]arket oriented economic policy does not get implemented simply because one hundred smart economists in Canberra think its a great idea".\textsuperscript{112} Bell agrees on this point. He says that Pusey's argument is so simplistic it can be reduced to the dictum "if we change the bureaucrats we will change the state".\textsuperscript{113} Bell argues that economic rationalism was adopted because weak management at the micro economic level (that is, in the development of industry structure and competitiveness) throughout the post-war period resulted in a collapse in the ability of the older wealth creating sectors to underwrite domestic economic inefficiency which was propped up by a strong state at the macro level (in the form of tariffs). The result was "an ideological reaction" from the liberal elements of the state which has seen them "increasingly colonise what used to be the macro-structuring realm".\textsuperscript{114}


\textsuperscript{111} Peter Beilharz (1993), p. 371.

\textsuperscript{112} Kerry Schott (1991), pp. 30-31.

\textsuperscript{113} Stephen Bell (1993a), p. 399.

\textsuperscript{114} Ibid., p. 396. Bell elaborates this argument in Australian manufacturing and the state, especially Ch.2.
Conclusion

Bell's analysis persuasively deals with Pusey's argument and resonates with the earlier sections of this chapter which showed that the adoption of Liberal Keynesianism dictated the limits of post-war policy which always stopped short of intruding into the realm of private decisions over investment. Bell, however, does not explain why it was that economic rationalism shifted from the micro to the macro realm in 1987. Why then and not earlier, or later? The answer can be found in the foregoing analysis. Japan's prescriptions for injecting economic rigour into the management of the Australian economy resonated with the prescriptions of Canberra's economic rationalists and gave them the credibility they needed to shift their influence to the macro-economic sphere. As the previous two chapters have shown, this was a gross misreading of Japan's intended message, which was in fact for Australia to adopt a much stronger role at both macro and micro levels of the state.

Having adopted economic rationalism as their working model, the government was now confronted with the task of getting the private sector interested in Japan's MFP proposal. How would they go about that? Having demonstrated their willingness to take up the challenge to inject rigour into the management of the economy via the prescriptions of Canberra's economic rationalists, they were left with the task of generating investor interest without directly intervening. Despite the enormous policy shifts that had occurred since 1983, they were still confronted with the problem with which they began their term of office: how to take a steering role in the economy under free market conditions. This time, however, the international players were not
financial conglomerates but Japanese investors acting in Japan's interests, led by a strong Japanese state.
ORGANISING A BUSINESS RESPONSE:
COMMERCIAL OPPORTUNITIES VERSUS SINGLE SITE

Introduction

It may be appropriate at this point to draw together the key arguments made so far in this thesis. Japan's rapid post-war economic growth, which only slowed in the 1990s, rested upon its unique constitutive principles which have been explained as a combination of a strong state with politically weak labour. Its large trade surplus has resulted in expectations from the international community that the country take a more active political role in both defending and furthering the economic interests of the region. Japan has also incited resentment from its trading partners for refusing to play the economic game on a level playing field. Because Japan is deeply committed to retaining its social, economic and political organisational forms and because it believes its trade surplus is largely the fault of inappropriate organisational forms in competitor nations, MITI's recourse, in the period in question, was not to change its own behaviour but to attempt to change the behaviour of others.

The offer of the MFP was made after MITI had undertaken an extensive survey of the Australian economy, at the request of the Australian government, with the objective of identifying favourable areas of investment for Japanese business. It has been argued that Japan proposed the MFP as a vehicle for Japan to demonstrate the effectiveness of Japan's organisational forms by sharing its corporate strategies and by
creating an environment which demanded strong role from the Australian state. The paradox was that Japan's identification of a lack of rigour in the management of the Australian economy encouraged the shift to economic rationalism as the guiding principle for economic management in Australia, but economic rationalism rests upon a reduced role for the state with less ability to steer either accumulation or economic development.

It is important to keep these facts and arguments in mind when examining Australia's reaction to the MFP proposal. Having taken on the principle that free markets are the shortest route to economic development and national growth, the MFP had to be developed by the private sector. Chapter two drew upon McEachern to argue that the state acts in the context of business failure. Clearly business had failed to generate new avenues for growth in Australia and it is equally clear that liberal Keynesianism in the post-war period had propped up uncompetitive industry.

Having approached Japan on behalf of the private sector, but now left without a justification for interventionism, how would the Australian state ensure that business would take up the opportunity provided by Japan? This chapter outlines how Australia went about it. The theoretical framework is provided by the strong state/weak state arguments articulated by Bell and Hart. Because the MFP was a joint venture between Japan and Australia and a technopolis of sorts, the experiences of both countries with this type of development provide the context. The argument is that the choice to adopt a form of economic management that

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1 Although the MFP was meant to be an international project, the project development was negotiated between those two countries.
postulated a limited role for the state ensured that the project would fail before it even began. To be successful, as Japan knew, the development of the MFP required that the state act with strength.

**Strong states**

One measure of a nation's competitiveness is its ability to rapidly diffuse new technology throughout industry. Although Australia has recognised the importance of new technology since at least the mid seventies, the emphasis has largely been on innovation rather than diffusion. It is far easier for the state to plough money into research institutions to foster innovation than it is to ensure that those innovations are taken up by the private sector. The latter either depends upon government investment directives or a unity of purpose between government and business in a nation's economic development. In other words it depends upon a 'strong' state, loosely defined as

&emsp;&emsp;typically intrusive into the affairs of industry, well coordinated across various arenas of policy and relatively autonomous. [Strong states] tend to have a well-developed bureaucratic apparatus and a strong sense of mission in terms of coordinating and directing the achievement of desired industry outcomes.

In this light, the adoption of economic rationalism in Australia in 1987 as a solution to the nation's competitiveness was highly problematic, but was it the sign of a weak state? Bell draws upon Grant's model of 'partisan state-led adjustment' to argue that while Australia is not a strong state in the above terms, it is not entirely weak either. Grant contrasts his model of partisan-led adjustment with

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company-led adjustment where the task of change is left in the hands of companies operating in approximation of a market economy. Partisan state-led adjustment involves interventions by government in order to create the conditions in which ultimately, such company-led adjustment can occur. State intervention is necessary because companies lack the political will and capacity, and the management determination, to see adjustment through on their own. Conditions must be created in which free enterprise can flourish, but business cannot do this by itself, partly because of what is seen as spinelessness, partly because the obstacles are so great that they can only be tackled through the determined use of state power.4

These obstacles are in no small part due to the fragmented nature of business. Business is after all, as Byrt says, "a process through which goods and services are developed, produced and marketed",5 and it is a process comprising individuals, firms, partnerships and companies. In Australia business activity is divided between primary, secondary and services sectors and is also divided into large, medium and small firms within each sector. There are private and public firms, and multinational, national and local firms.6 It is also the nature of business to be competitive. Although it has a common interest in deflecting government interference in the private realm of decision making, and is generally united against organised labour, between sectors it is disunited in almost everything else. There is, for example disunity of interests between foreign and local capital, between banking and productive capital, between manufacturing and rural/mining capital and between monopoly and non-monopoly capital.7 Examples of intersectorial conflict can be found between rural and manufacturing industries or between exporters and importers about tariff reform, or between multinational corporations which may see advantages in tight fiscal policy, and construction, retail

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5 William Byrt (1990), p. 3.
6 Ibid., p. 3.
and manufacturing businesses which mostly favour policies which stimulate local demand.\textsuperscript{8} It is therefore almost impossible for business as a whole to even agree upon, let alone design, an environment favourable to all sectors. It is for these reasons that governments play a role in shaping the business environment.

Bell argues that in Australia this task is made more difficult by the absence of developed apparatuses for industry intervention, a history of poor policy coordination and a reluctance to develop a strategic vision for Australia. Despite that, he says, the state has sometimes acted with strength to create a competitive business environment, citing for example recent government resolve to reduce protection in the hope of precipitating "a company-led adjustment process".\textsuperscript{9} It is a bit of an odd argument to make given that the implementation of protection to foster industrial growth rather than its removal would normally be interpreted as 'strong' state action. There was in any case fairly unanimous agreement between government, unions and business by the late 1980s that protection should be reduced, albeit slowly, allowing protected industries time to adjust. To argue that the state acted with strength when it chose to withdraw protection rapidly in the face of arguments for phased reductions is rather like saying that the state acted strongly to be weak.

If Bell's understanding of strong state action was applied to the MFP it could be argued that the state acted with strength when it sought to create an opportunity for new growth. However, there is a problem with this as a framework for understanding what was going on. Senator Button led his investment mission team to Japan in 1986, precipitating

\textsuperscript{8} Stephen Bell and J. Wastia (1992), p. 21.
\textsuperscript{9} Stephen Bell (1993), pp. 9 and 189.
the MFP proposal – a good example of strong state action, but then the government adopted a full blown economic rationalist agenda in 1987. Having done that, it was unable to complete the task of creating an appropriate environment for private-sector led growth (or company-led adjustment) to occur. And given its fragmented and competitive nature, business was unable to do it on its own.

There are problems in any case with a theory that ascribes so much power to the state to create the conditions for private sector growth. It is a linear explanation: the state acts and then stops acting when the private sector starts to act. It has not worked like that in countries that demonstrated superior international competitiveness in the post-war period. Hart examined five countries - the United States, Japan, Germany, Britain and France, and concludes that international competitiveness cannot be sustained without an ongoing coalition between two dominant social actors. He has found that one-actor dominance, such as the United States where business is dominant, France where the State is dominant or Britain when labour was dominant resulted in low international competitiveness when compared with Germany which has a coalition dominance between labour and business with a weak state, and Japan which has a coalition dominance between the state and business with weak labour. A business dominated system (as in the United States) has resulted in a weakening of labour, low social commitment to raising the skill levels of workers and as a consequence of that, high resistance to the introduction of new technologies. A state dominated system (as in France) has resulted in weak links with business which limits the state's ability to read, and respond to, market signals. In the light of these findings, the decision of the state in Australia in the late 1980s which created an

environment for business where they either sank or swam in the wake of free market forces further problematises the idea of strong state in Bell's terms.

The state also created the conditions for a privately-driven MFP to fail and this can be demonstrated most clearly in the first instance by examining Australia's own experiences with technology-oriented complexes. Technology Parks provided the experiential background for the way Australian policy makers thought about the MFP proposal and because Technology Parks are off-shoots of the technopolis, some discussion of the successes and failures of both types of complex is necessary. In the second instance, the conditions for failure can be demonstrated by examining the processes surrounding the organisation of a business response to the project. In Australia there was no suitable structure that could have been utilised to organise a collective response from the business sector. If the MFP was to be privately driven then this was clearly going to be a crucial issue. In charting a way through these important aspects of the organisational structure of the MFP development it becomes clear that there were missed opportunities to create the preconditions for success. The most important of these was the missed opportunity to cooperatively develop an effective national development strategy.

Technopolises and Technology Parks

Countries all over the world have experimented with some form of technology-oriented complex with varying degrees of success, depending upon the objectives and the criteria used to measure it. It has already been shown that Japan's objectives are to nurture creativity and to

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revitalise regional growth. The broadly defined objective in other countries is to gain a competitive edge in the development and application of high technology. More specifically their purpose is to localise technological and scientific research and commercial activity. They are a response to a new competitive environment shaped by new technology, and an attempt to nurture technological and scientific preeminence and an international reputation to attract overseas firms, promote new business, and assist existing businesses to improve their competitiveness and restructure toward new products and processes. The presence of a university plays a pivotal role in acting as a magnet for government funding and talented people and for fostering research and development activities. Indeed, say Smilor et al, without the existence of at least one research establishment of world class excellence, there can be no technopolis. Of equal importance is the requirement for a new type of relationship between the public and private sectors. While competition still occurs between universities and between companies, and between universities and companies (especially for funding and grants), cooperation is essential. This is the central paradox, say Smilor et al, both competition and collaboration must occur in the development of these types of projects.

The most common measure of success of technology-oriented complexes is to count the number of new firms and jobs they create. An international study undertaken by Mitsubishi Corporation found that the complexes rarely live up to expectation. In the U.S, 1000 new jobs per year were created in North Carolina's Research Triangle in the thirty years since its establishment, but this is less than the number of jobs lost in

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13 Ibid., p. 434.
three years as a result of industry restructuring in the 1980s. The impact on Britain's employment of all its science parks was found to be negligible, and even in Japan, where most success has been recorded, only 320 new jobs were created per year per technopolis up until 1988. Compared with the high establishment costs, these figures are cause for some concern, particularly since statistics suggest that resident firms had mainly relocated from other metropolitan areas, and employment was therefore not so much created as redistributed.\(^\text{15}\) The most positive contribution the complexes may make, the study says, is "to somehow improve the atmosphere of an area by helping to develop an ethos of entrepreneurship and technological awareness, leading to innovation and process".\(^\text{16}\)

Oita Technopolis is the most successful of Japan's technopolises, a fact which seems to owe more to the pre-existence of a sound industry infrastructure than good management. The other factor which helped Oita's relative success was that its Governor Mr. Hiramatsu had been a top official of MITI before retiring to local politics. He was also one of the innovators of Japan's development strategy and architect of the restrictive policies which protected Japan's computer industry in the early stages of its development.\(^\text{17}\) He had developed a web of close personal connections with many of the presidents of the companies that benefited from those policies, and when he asked them to establish plants in Oita they responded out of a deep sense of moral obligation (ongaeshi) even though the location was less than optimal.\(^\text{18}\) In Japan this commitment to duty and obligation creates a system of reciprocity unknown in the west.

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\(^\text{15}\) Ibid., p. 107.
\(^\text{16}\) Ibid., p. 108.
\(^\text{17}\) Jeffrey Broadbent (1989), p. 245.
\(^\text{18}\) Sony located a plant at Oita despite its coastal location which was not ideal for the manufacture of integrated circuits. Sony's plant manager said "we owed Governor Hiramatsu a favour and couldn't refuse him". Ibid., pp. 245-246.
Having fulfilled their obligation to Governor Hiramatsu by establishing plants in his prefecture, the companies were in turn provided with good workers, reduced taxes, electricity and good access to the airport. It has already been shown that incentives also play a large part in attracting industry to Japan's technopolises, as do the high skill levels, loyalty and stability of rural Japanese workers compared with workers in overseas countries where companies may have alternatively located.

When measured against the objectives of Japan's regional development policy, MITI's Technopolis program has had some success in redistributing production. Where it has failed utterly is in its social aspects, and in the redistribution of basic research, which is still concentrated in big cities. Japan has had a long history with experimenting with regional development and land use plans dating back to the 1960s aimed at the creation of a national industrial structure and at the redistribution of industry and population. Briefly, these have been the *National Comprehensive Development Plan (New Industrial Towns)* of 1962, the *New Comprehensive National Development Plan (Information Networks and Remote Sites for Large Scale Industry)* of 1969, the *Third National Comprehensive Development Plan (Residential Zoning and the Technopolis)* of 1977, and the *Fourth National Comprehensive Development Plan (The Intelligent City)* of 1987. These plans have had both economic and social aspects, the former concerned with industrial restructuring and the latter with the social consequences of that restructuring. MITI's primary concern with economic outcomes together with its ability to guide

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19 Ibid., p. 246. Governor Morihiro Hosokawa also had considerable success in attracting new companies to the Kumamoto prefecture. Also Mitsubishi Corporation (1988), p. 11.
21 Ibid., p. 243.
22 Shinobu Ohe (1990).
policy has seen the economic aspects given priority over the social.\textsuperscript{23} MITI attempted to redress some of the social problems in the technopolis program, but most technopolises in Japan have trouble luring talented people, despite the availability of high quality housing and amenities.\textsuperscript{24} Workers who leave the large cities to return to their local technopolis find that it offers little in the way of challenge or opportunity.\textsuperscript{25} The main failure of Japan's technopolis program is its inability to overcome the constraints created by a system of education which results in hierarchies within universities preventing industry collaboration and stifling innovation and basic research.\textsuperscript{26} The technopolises, says Tatsuno, "run the risk of becoming high-priced showpieces that are expensive to maintain and operate".\textsuperscript{27}

Australia has no experience with technopolises. In Australia technology-oriented complexes take the form of technology parks.\textsuperscript{28} Its experiment with this type of endeavour grew out of a belief in the early 1980s, principally led by Barry Jones the then Minister for Science and Technology, that high technology would be Australia's economic salvation.\textsuperscript{29} An aura of crisis was generated about the dearth of high technology in Australia and the issue was promoted as a national problem.\textsuperscript{30} Jones was the driving force behind the National Technology Conference held in Canberra in 1983, at the end of which he said that "[t]he primary aim of this Conference was to achieve the 'shock' of

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\textsuperscript{23} Jeffrey Broadbent (1989), pp. 237-239.
\textsuperscript{24} Ian Masser (1990), p. 52.
\textsuperscript{25} Sheridan Tatsuno (1986), p. 205.
\textsuperscript{26} Ibid., p. 203.
\textsuperscript{27} Ibid., p. 207.
\textsuperscript{29} Stuart Macdonald (1987), p. 240. See also I. Reinecke (1989), p. 34.
\end{flushright}
recognition of where Australia was placed in the dramatic sweep of technological change".31

Jones believed that the fundamental problem was that Australia's infrastructure was unsuited to high technology industry, and he attempted to lift the profile of high technology as the means of gaining public approval for change.32 He was heavily influenced by the Espie Report33 which identified shortage of venture capital as the major impediment to the development of high technology and which argued that financial markets had failed to provide high risk capital. Led by Jones, the Hawke government rapidly moved to implement the Management and Investment Companies (MIC) scheme to make venture capital available for high risk industry,34 offering 100% tax deductibility for funds invested through this scheme.35 Macdonald says this endeavour failed for two reasons; firstly it did not acknowledge "that there was little high technology in Australia worth financing" and secondly, that the provision of venture capital alone does not compensate for an inadequate infrastructure.36 Jones did manage to lift public awareness of the importance of technology, but rather than challenging the existing infrastructure, what occurred was "a profusion of high technology programmes in the States so superficial that they pose no threat at all to that infrastructure".37 It is in this context that Australia's experiment with technology parks must be understood.

32 Ibid., p. 240.
33 Australian Academy of Technological Sciences (1983).
37 Ibid., p. 240.
Australia's technology parks are regional attempts to emulate the success of America's Silicon Valley. Their task is to upgrade the standard of regional technology and bolster the state's economy. Macdonald argues that because policy makers often have too little idea of what high technology actually is and what its industries look like, they seek to duplicate the obvious characteristics of Silicon Valley, the high technology success story of the 1980s. He says that as a result, technology parks become little more than "high technology as seen by planners and architects [and] ... by politicians and bureaucrats who wish to translate the nebulous into something concrete". The underlying assumption is that if the right elements are put in place, such as a university or research institution, buildings and campus-type landscaping, a number of businesses will be attracted and collaboration, commercialisation and high technology growth will ensue. The firms that are likely to be attracted to these types of developments are usually conventional businesses seeking an up-market, high tech image, and there is little evidence of either collaboration between firms or of the hoped-for "synergistic relationship" between parks and universities.

Smilor et al use the processes surrounding the establishment of a technopolis in San Antonio, Texas as an example from which to extrapolate the necessary elements for successful organisation of such projects. It should be noted that they too use statistical evidence to measure success, such as the numbers of firms attracted to the region and the numbers of jobs that have been created. They identify key sectors present in the implementation process that can be conveniently

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40 Ibid., p. 85.
41 R.A. Joseph (1989a), p. 188. See also Derek T. Healey (1989).
summarised as universities/research institutions, government, business and support groups. Briefly stated, it is the function of universities to excel in research and thereby act as a magnet to attract large technology companies and top class people, including students. It is the function of government to supply funding, the task of the private sector to be attracted to the area and the task of support groups to provide networks. They say that the successful linkage between sectors depends upon the presence of 'influencers'. Influencers are highly educated people with established reputations within their own sector, who have personal and professional links with other sectors. They play a key role in the process from conception to implementation and, after implementation, assist with the institutionalisation of that process. Influencers also bring to the process their own networks which widen the numbers of people involved, facilitating effective interaction and increasing its chances of success.42

There are some problems with extrapolating from the example of San Antonio because of the importance of the development and operation of U.S. military bases to the region. The San Antonio Chamber of Commerce estimates that the bases provide economic stimulus of about $2.6 billion annually. Smilor et al do not say that this type of stimulus should be present in the region for a technopolis to work, but neither do they assess the outcome if it is not. It is of equal interest to note that they go on to assess the impact of federal funding for research and development at San Antonio and find that when cuts to government higher education funding were made in 1983, the region's reputation for excellence in education declined accordingly. Since the presence of the private sector depends upon continued access to university research and resources, particularly

42 Raymond W. Smilor et al., p. 441.
'the talent pool', the whole process apparently rests upon continued government support.

Most importantly, because of the type of evidence Smilor et al rely upon to argue for the success of technopolises based on the San Antonio model, they see no reason to ask questions about the type of organisational structure necessary to achieve desired goals. For them the presence of significant firms bringing employment to the region is proof enough that the concept works. No attention is paid to the development of new technology or commercial opportunities which spin-off from that. Their identification of the role played by influencers is important, however, since they do have the potential to create appropriate organisational structures. But again Smilor et al do not probe this issue very deeply. They do not, for example, ask questions about how, or indeed if, their ability to influence and to create networks impacts directly upon any commitment the business sector may make to the project.

Although the work Smilor et al did relates specifically to technopolises, the MFP has the same underlying logic, but unlike the technopolis, the MFP was meant to be transnational in the sense that it was to serve more than one nation's objectives. It was to be a site for international collaboration, with significant emphasis on life-style to lure world class people and organisations to provide new networks and new business opportunities. Apart from being a response to Australia's request for a new type of investment relationship with Japan, MITI's stated objectives for pursuing an Australian MFP were: Australia's easy proximity to Japan, its political stability, its high education standards and labour skills, its 'solid infrastructure' and its location at the southern point of an axis spanning

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the growing, economically dynamic south-east Asian region with Japan at
the northern point.++ MITI says that "Australia and Japan bear a
substantial role and responsibilities for the development of the Pacific Rim
as indispensable partners not only in economic affairs but in a wide
spectrum of activity". This international orientation did not sit easily
with the Australian side, who could see no further than their national
trade deficit and who were anxious to use the MFP as an opportunity to
meet national objectives. For Australia 'international' came to mean 'not-
Japanese' in an attempt to appease incipient racism. Japan's stated
objective for pursuing a project which took the form of an international
technopolis was their failure to develop adequately the lifestyle component
in their technopolises at home, hence the emphasis on 'high touch', or
lifestyle features in the MFP proposal.46

What is intriguing about the MFP considered against its parentage is
precisely the fact that both technology parks and technopolises have had
limited success in achieving both their economic and lifestyle objectives,
and have relied heavily upon continued government support. This poses
questions about why either Japan or Australia thought that this type of
project, which had failed at both local and national levels might work at
an international level. When one considers too that these types of projects
have only ever been established with government funding, that the
Australian government expected the project to be privately driven at all is
a paradox.

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44 Ibid., pp. 1 and 13.
46 Ibid., pp. 6-8.
Organising business

Despite the ample evidence that the odds were stacked against success, the Australian private sector was charged with the responsibility for developing the Australian vision, with the state playing only a supportive role. The first communication from government was in the form of a letter from Senator Button, then Minister for Industry Technology and Commerce, on 15 April 1988 pointing out the benefits to business of becoming involved in the MFP feasibility process. The MFP would, said Button, have the "benefit of assisting the integration of Australian industry into world markets". The letter requested a contribution of $10 000 from each participating company on the basis that it would "provide a direct opportunity to assist developing this exciting proposal" and that "the eventual success of the project will very much depend on the efforts of the private sector". In addition the $10 000 would give them membership of the Australian Domestic Committee, which would meet regularly, and access to relevant documentation and briefings.

Approximately 80 companies paid the $10 000, government organised a conference and some briefing sessions and established a number of working groups headed by businessmen with the idea that these groups would thrash out a concept. As one interviewee put it "there was a lot of thrashing and not much action". It was becoming apparent that the private sector was unwilling or unable to take the initiative to drive the project. Since the starting point for negotiation was to be that each side have a vision of the project, the Australian side had to develop theirs

47 MFP Australia Research Ltd. (1989b), Attachment Exhibit 1.
48 Senator John Button (1988). The letter was sent to an unknown number of significant major corporations in Australia. Mr. Peter Crawford, Chief Executive, Department of Premier and Cabinet in South Australia, indicated that the initial membership of the Australian Domestic Committee could have been classified as 'extended BCA membership'.
quickly. The preliminary Japanese vision had already been outlined by MITI in the *Basic Concept*. The private sector was to be instrumental in developing the Australian vision, but they did not know how to go about it. One private sector representative who was involved at the time said that the problem lay in the fact that business would not spend time and effort on something so ephemeral. Nobody knew what the project was, or how it was going to come about and would not commit resources to it on that basis.\(^{51}\) It seems that the $10,000 donation was paid mainly as a prudent measure in the event the concept did develop into something more tangible and which may be of benefit in the longer term. Others regarded it as a donation, as a display of support or a response to pressure applied by government. The point to be made here is that no private sector representative interviewed saw their involvement as part of a central coordinating or driving mechanism. In fact some frustration was expressed about the role expected of the private sector. AWA's Corporate Manager for Planning & Communications said:

> Industry was willing to participate, but no-one had any idea what was required. How did they want our participation? Who was actually organising it? Industry isn't like government. It's a wide range of businesses with different objectives and they won't act as one because of lack of infrastructure. It seemed that government was controlling the organisation but at the same time saying to industry to lead it, and this was a real dichotomy in action and word. I don't disagree with DITAC's philosophy that industry will be the key, but where I saw the controversy was that they continued to organise it. They were the ones going off to Japan, they were the ones who had large staff, branches indeed, devoted to the MFP, but they were saying to us that we had to organise ourselves and industry isn't structured that way. Early meetings were frustrating, we went over the same ground because people didn't know what they were supposed to be doing. \(^{52}\)

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\(^{51}\) Lisa Corbin (1989).

\(^{52}\) *Ibid.*
It was at this point that Senator Button and Will Bailey, who was heading up the Australian Domestic Committee, approached Clem Doherty of McKinsey & Partners with a request that he help organise an Australian response to the MFP proposal. He was asked to try to motivate the Australian business community to put together a vision. Doherty recalled Michael Rennie from McKinsey's Swedish office to work with him on this task. The involvement of McKinsey & Partners was something of a catalyst in the MFP process, both because of Doherty's personal drive and enthusiasm, and because of McKinsey's international experience in developing organisational strategies. McKinsey claims to work for about 300 of the top 500 companies around the world on an ongoing basis assisting them with the development of long term business strategies and in the establishment of organisational structures to ensure those strategies operate effectively. They believed the MFP to be an unusual project, but not out of line with this type of work. In this context Clem Doherty can be regarded as an influencer in the terms of Smilor et al. He brought to the MFP process McKinsey's Australian corporate network and he and Rennie lobbied 250 people from this network by telephone. Rennie said "we talked to them about the future of Australia and how they should be involved and managed to get 249 of them to accept".

Doherty had a firm personal commitment to Australia and an enthusiastic belief that the MFP was an opportunity to fulfil his vision of where Australia ought to be going. In an interview with Michael Rennie he said of Doherty:

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54 Michael Rennie (1989).
55 Ibid.
56 Ibid.
He is a real visionary and his motivating force is to do something good for Australia. He has been involved in some major corporate structures in Australia aimed at that. He doesn’t work on anything else, he only works on things that are going to have an effect on export, bottom line, or on Australia’s competitiveness.57

McKinsey believed their experience with corporate strategies could be used to facilitate micro-economic reform to achieve national economic restructuring. Rennie said that Hawke government’s preoccupation with interest rate adjustment to achieve the J curve effect missed the point. It is necessary, he said, to understand exactly what needs to happen to make the J curve work. For example, it is necessary to target specific companies with the potential to export and then assist them with the development of international export strategies. In this sense McKinsey see themselves as 'de-blockers', clearing the obstructions to the generation of an effective export culture. They also held a firm conviction that Australian economic success in the 1990s would depend upon combining collaboration with competition. Its an idea developed by Kenichi Ohmae who is a partner in McKinsey’s Tokyo office and author of *Triad Power*.58

Ohmae is critical of much of the western management practice of seeking out low wage havens, regarding it as a limiting and dated practice. He believes successful companies must instead invest in new technology and in research and development but acknowledges that it is no longer tenable for individual companies to develop unchallengeable technology that can be exploited through patents and licensing agreements. The cost of R&D is now too high, and advances in, and diffusion of technology are too rapid for companies to monopolise it. This means that if companies

57 Ibid.
58 Kenichi Ohmae (1985).
are to gain a competitive edge, they must become international in orientation, and either set up operations inside countries or develop consortium arrangements with indigenous companies to effectively access those markets. The major OECD countries have similar infrastructure, systems of government, income levels, life-style, and leisure pursuits, he says, providing a market of about 600 million people if accessed properly. Establishing companies inside these countries is important to overcome rising neo-protectionism, to be able to respond quickly to market changes, to build an effective interface with domestic consumers and to enter a new product into all countries simultaneously to defeat challengers. This does not imply that these markets can be treated as a single multi-national unit. National preferences must be taken into consideration, which is why companies must nurture 'insider status'. If it is untenable to set up inside OECD countries, and defacto penetration is necessary, then a consortium arrangement must be made which means mastering the language and customs to allow an effective partnership to develop.59

For Doherty the MFP provided an opportunity to sell these ideas to Australian business. Button and Baily literally told Doherty not to worry about the expense, to "just get out there and do it".60 Doherty played the role of influencer well. He was able to talk to business in language they understood. Instead of concepts and visions, he talked about strategies and specifics.

MFP Australia Research Limited (MFPAR) was established in November 1988 with Clem Doherty as its Chief Executive (until Trevor Berthold took over late in 1989). MFPAR took over the membership of the Australian

59 Ibid., pp xvi-xvii.
60 Michael Rennie (1989).
Domestic Committee, the task of which was to represent the Australian interest in the feasibility study, to develop business ideas which would be internationally and commercially viable and to provide Arthur Andersen-Kinhill with their findings for incorporation into the development of a Pilot Concept Paper.61 Business think tanks were set up by MFPAR and

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<th>MFP THINK TANKS</th>
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<td>- electronics and computer systems</td>
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<td>- telecommunications and value added systems</td>
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<td><strong>Human capital education and training</strong></td>
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<td><strong>Hospital services and medical electronics</strong></td>
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Source Yvior Hingee, 'Australian Participation in the MFP Study through the Activities of MFPAR'.
became the mechanism by which business ideas were coordinated and fed into the MFP process. In all, about 250 business people were involved in 18 industry areas. Each think tank represented an industry area and comprised 12-15 business people (see table 6.1). Their task was to develop 30 year visions in their respective industry sectors with special reference to the Asia-Pacific region, and to identify if and how the MFP would fit with those visions. In the process of attempting to fulfil these objectives, the think tanks forced collaboration between traditional competitors, and this in itself was something of a historical moment in Australia. Never before had so many influential members of the private sector sat down with each other to thrash out common long term objectives.

MFPAR's objectives, role and recommendations were clearly articulated in a series of three working papers or progress reports produced during the think tank process. The first, The Multifunction Polis (MFP) - An Australian Perspective, outlines MFPAR's role in the identification of economic and social benefits of the project to Australia. It names the 18 think tanks and outlines the framework for their participation. They were required to consider:

1. The growing internationalization of business
2. A greater Australian focus on the Asia-Pacific region
3. A swing towards the development of international trading positions in value-added manufacturing and services
4. A stronger connection between research and development and downstream markets.

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63 MFP Australia Research Ltd. (1989a).
64 Ibid., p. 2.
The paper stresses the importance of establishing the commercial viability of the functions or industries likely to form the basis of the MFP before any decisions were made about the site. It cautions against settling on the idea of a single city concept which could limit options, especially in an era of rapidly developing communications and transport technologies and questions the relevance of MITI's emphasis on lifestyle to the opportunities for wealth creation in the MFP.65

The Second Paper, Developing a Commercially Viable MFP Concept - An Australian Perspective,66 outlines some commercial opportunities which were identified in the think tanks and begins to provide some direction to the Consultants Arthur Andersen-Kinhill in their preparation of a Marketing Package. The ideas identified for development within the MFP were:

- Agriculture (Food)
- Education and training
- Transport
- Information Industries
- Aerospace and Defence
- Environment
- Health Care
- Media and Entertainment
- Financial Services and Business Information Services
- Biopharmaceuticals

The think tanks had been set up to reflect the vertical integration of a particular industry sector. For example, rather than grouping industry in the traditional way, into manufacturing, agriculture and services and establishing think tanks accordingly, each industry think tank comprised representatives from the entire system of a given industry. For example

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65 Ibid., p. 8.
66 MFP Australia Research (1989b).
the agricultural value-added think tank included people ranging from farmers through to those involved in research and development and with marketing and distribution.\textsuperscript{67}

By the third paper, \textit{MFP Status and Future Direction: An MFPAR Perspective},\textsuperscript{68} key areas for investment had been identified. These were:

- Information Services
- Media and Entertainment
- Health Services
- Education Services
- Transportation Services\textsuperscript{69}

The third paper stresses the extent to which the 9 principles (see table 6.2) which had been written to govern the feasibility study,\textsuperscript{70} had shaped MFPAR's approach during the think tank process. It is worth citing the relevant passages from the paper because they indicate that the lack of site specific subsidies limits the ability to attract commercially viable businesses to a specific site. They also reveal the lack of consultation with MITI in the preparation of those principles. The relevant passages say that:

The Nine Principles ... were adopted by Federal Cabinet, with agreement from all States and Territories, as the basis for proceeding with the Feasibility Study of the MFP concept. We understand that, although the Nine Principles have been extensively discussed with Japanese Government representatives, no bilateral agreement was reached. However, the Japanese Government accepts that the Australian position in the Feasibility Study will be guided by the Nine Principles.

\textsuperscript{67} Ibid., p. 3.

\textsuperscript{68} MFP Australia Research Ltd. (1989c).

\textsuperscript{69} Ibid., p. 6.

\textsuperscript{70} Department of Industry Technology and Commerce (1989).
The Nine Principles warrant careful reading. MFPAR's approach has been heavily influenced by them. Read together, the principles imply that the MFP will encompass a very advanced infrastructure, strongly linked both internationally and domestically, and upon which the international growth businesses of the 21st century can achieve their potential. This infrastructure could be multiple site and must be commercially viable as location specific Commonwealth and State subsidies will not be available.\textsuperscript{71}

It is important to note that principle six departs from normal international practice regarding subsidies ... and biases our working version of MFP towards discrete additions to existing infrastructure rather than a single greenfield location.\textsuperscript{72}

MFPAR's thinking was also shaped by their belief that interpersonal linkages will increasingly be carried out through telecommunications networks, making obsolete the necessity to accumulate a critical mass of bodies in a new physical environment. Their vision of the MFP was the location of a series of new business scattered throughout Australia, linked to existing facilities, businesses or materials where Australia already had some competitive advantage. These physical sites would provide the 'core of excellence' for a particular industry that would be linked to other key centres throughout the world "so that in this new vision of wealth creation, information and intellectual property can be part of the information network".\textsuperscript{73}

The Australian vision as developed by MFPAR was that the MFP would be a 'platform' for key twenty-first century global and/or regional businesses and that would be best achieved by developing the MFP as a major Media Centre from which would flow major opportunities in information services

\begin{flushright}
\textsuperscript{71} MFP Australia Research (1989c), p. 2.
\textsuperscript{72} Ibid., p. 6.
\textsuperscript{73} Michael Rennie (1989). See also MFP Australia Research (1989c), p. 7.
\end{flushright}
Table 6.2

**STATEMENT OF PRINCIPLES**

1. The development of an MFP based around internationally traded information, education and training, leisure and tourism, and research and development activities should be in Australia's interest, with particular emphasis on the pursuit of scientific and technological excellence. It should be developed as a way of assisting structural change in the Australian economy geared towards the development of an internationally competitive and export oriented structure.

2. Fundamental to the competitive advantage of the concept will be the development of leading edge infrastructure in areas such as telecommunications, information, and education.

3. Ensuring that the MFP is truly international in terms of its links with the world economy, its investment sources, and the people participating.

4. Developing the MFP as an entity which is not an enclave but is linked with the remainder of the Australian economy, and provides a leading edge test bed and technology transfer.

5. Further work is to be undertaken on the assumption that the proposal will only proceed to fruition if it can mobilize significant private investor support, particularly in Japan and the other countries, which results in a net addition to available capital resources in Australia.

6. *The MFP will not be financed through the provision of special location specific Commonwealth and State subsidies* (emphasis added).

7. Investigating a range of urban development options, including those involving multiple sites, all of which should assume that the MFP should not be a cultural enclave, but rather should be integrated with the remainder of Australian society.

8. The Commonwealth government to have carriage of all negotiations with the Japanese Government for the implementation of the Multifunction Polis principles. The states may discuss commercial proposals and provide information to Japanese Government representatives; and

9. That the Commonwealth and State Governments are committed to examining the regulatory environment with a view to facilitating investment in the MFP. In particular, that the Commonwealth Government will examine the climate for the movement of people, money, and goods in a positive way so as to enhance the MFP proposal.

education, and in health services such as professional packaging of training and instruction. An important element in the successful development of the MFP as a major Media Centre would be for Australia to become "a fourth node" in an increasingly interconnected global telecommunications infrastructure. The other nodes which are developing are Tokyo, New York and London. 74

It is clear that some breakdown in communication occurred between MFPAR and Arthur Andersen-Kinhill whose Pilot Concept Paper, essentially a preliminary feasibility report, recommended building on Japan's fifth sphere concept75 to create a core theme for the MFP as a 'Biosphere', supported by 'Renaissance' and 'Technopolis' elements. 76 MFPAR complained that their work had been ignored in the Pilot Concept Paper. They questioned the relevance of both the fifth sphere concept, arguing that "all Australian cities are fifth sphere, as is Australia as a whole; we do not necessarily need to create a separate place". They were also critical of the Biosphere as a theme, arguing that it would "prevent optimum business opportunities being developed and may inhibit MFP from gaining its full potential". 77 Despite those complaints the Biosphere theme was retained during the marketing phase of the feasibility study and appeared in the Marketing Document, A Concept to Create the Future. MFPAR's concerns about the development of the MFP as a single site was acknowledged to the extent that the Marketing Document left the issue

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75 The fifth sphere is a city that in MITI's view could supersede the previous four spheres of living. The first sphere was where home and workplace were combined, the second sphere occurred when the industrial revolution separated the workplace from home, the third sphere occurred when recreation was added to the urban environment. The fourth sphere is characterised by high stress and the need for its residents to escape to resorts for extended stays. The fifth sphere is meant to marry the elements of the third sphere with resorts and thereby transcend the problems associated with sphere 4.
open and listed the alternatives as single city, single site; single city with multiple sites distributed around one major city; or several cities.78

**Business attitudes**

The debate about the site was reflected in business attitudes about the success of the think tanks. In 1989 when some preliminary research was carried out, almost all think tank participants interviewed acknowledged the energetic leadership provided by Doherty and, belief that a tangible outcome may indeed be possible, despite the frustrating beginning.79 All participants contributed time and air fares without cost to MFPAR,80 and as far as it is possible to determine, all took the task seriously. Some companies did not participate in the think tanks but attempted to make a contribution in other ways. For example, Nissan Australia approached their parent company with a request that the MFP be considered for any possible relocation of design, engineering or research function. They felt that this was as much as they could do given the undefined nature of the MFP. Their Director of Corporate Planning said:

> We can't really say there is going to be all these other services and synergy. We can't say, hey look its going to be a hot bed of computer aided design and research so therefore it would be a good idea if you put people who are going to advance Nissan's CAD work down in the MFP. Its not as though we just put in $10 000 and sat back. We have spread the word a bit without the ability to be specific.81

78 **MFP Marketing Document (c.1989), p. 6.** The marketing document was produced to test international investor interest in the project and its content was meant to reflect what came out of the think tanks.

79 **Eric Muir (1989).**

80 **Michael Rennie (1989).**

81 **Richard Johns (1989).** Mr. Johns gave the example of Nissan's establishment of a design studio in Los Angeles for the purpose of tapping into American attitudes and perceptions of design. Similar design centres have been set up in Brussels.
Rennie's view of the think tank process was that it was a success. It allowed a great deal to be achieved in a very short space of time, producing in six months some direction for the feasibility study and some spin-offs for commercial applications, but many think tank participants did not share his enthusiasm. First MIC's Chief Executive John Grant, said that the MFP resonated with their own experiences with projects with long lead times, but he expressed reservations about the intangible nature of the MFP concept and the difficulties associated with getting business behind it. Grant's impression was "that industry is sitting back and is unsure what is going to happen and whether it will provide opportunities for them or not". This was certainly the view of Telecom's spokesperson, who expressed disillusionment based on the incompatibility of trying to map out long term visions for short term business. He said that:

The think tanks are bloody good for sitting down for a few hours and coming up with some good ideas, but when you start to put those through a filter to find the really good ones, its very difficult to construct that filter, especially if you don't know what the MFP is and you are being asked to look at a 30 year time frame. I mean, no-one can look at a 30 year time frame. We found in our think tank the time horizon for our vision was where we really understood technology was going - about 15 years, from then on, who knows?

The view of BHP's Corporate Manager of Strategic Planning was that the think tanks were a good idea, but their success was undermined by the debate over whether the MFP should be based on an urban development or on commercial opportunity. Many business people, he said, saw the value of developing a clear view of what could actually be achieved for Australia through a collaborative venture with the Japanese and this view

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82 David Wilson (1989). Mr. Will Bailey of ANZ headed up the Australian Domestic Committee, but he was unavailable for interview.
83 John Grant (1989).
84 Peter Morgan (1989).
increasingly accorded with McKinsey's view of a dispersed MFP. Moreover many think tank participants felt that Australia did not need another city, but it was manifestly obvious to everyone that the Japanese were intent on having a single city site for the MFP, preferably a greenfield one. A "conceptual fight" developed around this issue, he said, with Senator Button, Will Bailey (Australian Chairman, Joint Steering Committee) and Denis Gastin (Chief Executive, MFP Joint Secretariat) favouring the single city concept. Knight felt that even if Australia was prepared to accept the concept of a single-city site, to capitulate on this without using it as a bargaining mechanism was a wasted opportunity. In other words he felt that once Australia had a clear idea of what it wanted, Japan's preference for a single site could have been used to negotiate a more substantial commitment from Japan.\(^8\)

DITAC confirmed that Japan did indeed have a firm commitment to a greenfield site. DITAC's Assistant Director, MFP said "I don't think the Japanese will come at anything else. I think from [the government's] point of view we probably perceive that it would be integrated more into a metropolitan area than Japan would prefer", but whether greenfield or not, the Japanese firmly believed that the first step in the process was the selection of a site, as is the case with their Technopolises. She said

> they wanted to treat it like another Technopolis but with the fifth sphere stuff. They wanted us to select the site and they would be serious when that was done, so they have been very pushy on the site.

It was also clear that DITAC fully intended to capitulate to Japan on the site issue, evidenced by their spokesperson's comment that

\(^8\) Peter Knight (1989).
The political aspects of site are so overriding that I don't think the decision will be made purely on economic grounds. There will be a bun fight between the states. In order to avoid charges that the Japanese selected the site, it will have some economic aspects but will be politically acceptable. 86

DITAC's support of Japan's preference for a single site was greeted with consternation by some sections of business. Peter Crawford said that DITAC representatives had not been interested in 'real propositions' which demand hard work and precise clarity about objectives. Investment cannot be attracted, he says, by a

sort of conception that starts with public or private research institutions all sort of hurled down from the firmament and with the hope that somehow or other this generates a core capacity that is so important that major multinational firms will want to be involved in it. 87

Like McKinsey, he believed that it was first necessary to identify specifics and to develop a staged program for development. For him these stages included the identification of Australia's unique capabilities, an examination of whether they are able to be broadened, what applied research would be necessary, and a nation-wide search for companies engaged in similar activities and in the resolution of similar problems. Only then is it possible, he says, to begin the search for somebody who might be prepared to invest one or two million dollars to get the project off the ground. The belief that investors would be willing to put up $50 million for a vision, he says, is ludicrous. Crawford became involved in the think tank process because he believed that it was important for him to attempt to define the concept in this way, but felt that his ideas weren't taken seriously. The think tanks, he says, ended up being

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86 Helen Cox (1989).
87 Peter Crawford (1993). When I interviewed Mr. Crawford he was Chief Executive, Department of Premier and Cabinet in South Australia. He had, however, been Managing Director of AWA during the think tank phase of the MFP project.
somewhat ephemeral and futuristic as opposed to being driven by developing our capabilities and what real opportunities we had. They were a continuing search for federal science and technology policy without having the necessary thought processes and strategic capabilities to actually create industry technology and science policy.88

During an interview with Button in 1993 he admitted that the Australian government had pushed the concept of a city-led MFP believing that if that was what Japan wanted, then that was what they would fund.89

The proponents of a city-led concept did eventually win the debate, but, as already indicated, this wasn't resolved by the time the marketing document Multifunction Polis: A Concept to Create the Future was released in September 1989. The document officially marked the end of the think tanks because it supposedly embodied the ideas that came out of that process. The document was used to test market the concept internationally in September and October 1989. It was not well received by some sections of business. Muir (CRA) says that as far as he was concerned it did not reflect what came out of the think tank process. "They talk about next generation core industries, but its stuff anyone could have sat down and written, and frankly I don't agree with it".90 For him, the think tank process had been a waste of time.

Choosing the site

Preliminary proposals were received from Australian States in August and September 1989 based on sixteen criteria formulated in July 1989 for ranking sites and which had obviously been worked out during the think

88 Ibid.
90 Eric Muir (1989).
tank phase since they clearly reflected the input of the major players. (see Table 6.3, particularly items 3 and 11-14)

Table 6.3

SIXTEEN CRITERIA FOR SITE SELECTION

1. Minimal infrastructure costs.
2. Attainment of high international profile and ability to attract foreign investment.
3. Maximum accessibility technological diffusion
4. Preclusion of development of an enclave.
5. Facilitation of internationalisation of Japanese people and systems.
6. Facilitation of basic research, skill development and technical collaboration.
7. Maximum environmental enhancement and minimal damage
8. Demonstrated Australian preference for urban living.
9. Demonstrated multinational
10. Demonstrated location of suitable labour pool
11 Demonstrated target industry
12. Proximity to market, suppliers and industry milieu
13. Demonstrated links among target industries
14. Pervasive access to international links, both physical and telecommunications.
15. Establishment of fifth sphere concepts in a demonstration area

Source Joint Steering Committee, Multifunction Polis Feasibility Study, cited by Ian Inkster, The Clever City: Japan Australia and the Multifunction Polis, pp. 48-49

The idea of a hub and spoke concept had also emerged to cater to the Australian business preference for sites linked to existing capabilities, rather than to Japan's preference for a greenfield site. Seven of nine proposals were ranked. Four were nominated as 'hubs' (Queensland,
Victoria, South Australia and New South Wales), and three as ‘spokes’ (North Queensland, Australian Capital Territory and Western Australia). However, the second round of site rankings in early 1990 were based on a single-city. Selection criteria for this round asked States:

To describe and demonstrate a credible and realisable package for an integrated and complete economic and urban development project based on a specific site, which builds on regional strengths, benefits the whole nation and can be implemented in accordance with Australia’s guiding principles.

Inkster says the decision to go for a single site "was never convincingly argued by the MFP central administration". The decision to choose Queensland as the preferred site over New South Wales had no rational basis. The New South Wales submission was superior in all aspects according to Inkster. It named prospective investors, was more detailed in its costings, was cheaper, fitted more closely with the objectives of the think tanks, including a networked site and a “fully developed ‘4th node’ telecommunications function” and specified more clearly how the "capturing of land values" would be utilised to achieve the overall MFP objectives.

He argues that the only possible rationale for choosing Queensland over NSW was that their proposal fitted with MITI’s original preference for a single site. The pressure from MITI was considerable. Inkster claims that the reason why Japan cancelled an important meeting in November 1989 was because Australia was asking for an extension of time (from March to June 1990) to sort out the site rankings. He says they "probably would

93 Ibid., p. 56.
94 Ibid.
not agree readily to an extension of time except under conditions of a single site decision for the MFP, close to the original MITI concept. When the Queensland government refused to commit itself to forced acquisition of their proposed site on the basis that this was not part of the original proposal, South Australia, as the second choice, was named as the successful state. South Australia had also nominated a single, but brownfield and publicly owned, site at Gillman, a suburb of Adelaide. Failure to attract investor interest in Gillman first saw the core site redefined, deferred and finally dumped. The commercially viable opportunities identified by the think tanks, such as the national freight consortium which became the basis of the ALP's One Nation statement in 1992, were developed independently of the MFP.

Conclusion

It is clear that Australia and Japan had very different opinions about what the MFP should look like. Japan's preference had been for a single, greenfield site in an area of natural beauty with great potential for resort style leisure activities and lifestyle. The Australian view that ostensibly emerged from the think tanks, led by Doherty, was to establish commercial viability of specific projects before consideration of the site. Given the absence of site specific subsidies commercial viability was going to have to be established by building on existing ventures or industries where Australia could already demonstrate comparative advantage. Because these industries are scattered around the country, he conceived of the MFP as being a dispersed concept that would be linked by a core

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97 Clem Doherty (1994).
function. His vision of a Media Centre would provide a type of 'hub' which would integrate the dispersed centres.

Doherty was also in part driven by a mistrust of Japan's motives. Button has said of Doherty, "I can remember him saying that we will take this thing over and will cream the Japanese with this - we are smarter than them. In my role I had to deal with the Japanese. I found that a bit difficult". Gastin's view was that Doherty never understood what the Japanese motives really were. Referring to a conversation he had had with Kenichi Murakami (Deputy Director General of International Trade Policy in MITI and later Deputy Minister of Science and Technology policy), he said Japan had two motives. The first was that "Australia had beaten a path to Tokyo and wanted investment in something other than real estate". MITI knew that they would have to find a rationale to secure Japanese private sector investment so "they looked at all the longer term projects in MITI - they got the leisure section in and they got industry in and asked them to look at the big problems in Japan that may be able to be sorted out in partnership with Australia". MITI had failed to instil an appropriate lifestyle component into their Technopolises at home, and as argued previously, they knew from experience that low growth countries would offer generous subsidies and tax holidays to attract Japanese industry. MITI neatly pulled together their own concerns about the need to universalise Japan's constitutive principles with Australia's desire to attract Japanese investment, and sought to encourage Japanese private investment by promoting the concept of an international technopolis which emphasised lifestyle.

99 Denis Gastin (1994).
Throughout all negotiations the Japanese side consistently argued for investment concessions and tax holidays. Button said they constantly referred to the benefits of Japanese investment in countries such as Scotland, Britain and Ireland. They would not accept that although Australia was the only country to be offered the MFP, we were the only country not prepared to offer concessions.100

Gastin said that the principle which established that there would be no subsidies was written to avoid a situation where the states would outbid each other to buy the MFP,101 but there was more to it than that. Button said that

the brutal reality of us in the 1980s and indeed with Japan's relationship with many countries was that they had the money and we didn't and we needed investment and they didn't. Countries were falling over themselves to attract Japanese investment and here was this bonkers government in Canberra, led by a Treasurer [then Keating] that doesn't believe in incentives for anything. Saito, who was always keen about the MFP, always said - we need big incentives from government to make the MFP go ahead fast. They didn't get any!

Button went on to say that:

Cabinet never discussed the MFP. They would not talk about it. I would bring a cabinet submission forward in the normal way and the attitude was that we don't want to upset the Japanese. This is OK, there's not much money involved, we'll let it go. But no discussion.102

Government's lack of commitment to the project combined with Doherty's determination to organise the project on business' own terms. The rationale for his emphasis on commercial viability before the site was also

100 Senator John Button (1993).
101 Denis Gastin (1994).
102 Senator John Button (1993). Note that Eishiro Saito was Senior Adviser and Hon. Chairman, Nippon Steel Corporation.
the lack of site specific subsidies, but he had a general distrust of Japan's motives and an unshakeable belief in his own ability to pull together an Australian vision. A disinterested cabinet and a single-minded 'influencer' were never going to create an appropriate basis for successful negotiations with the Japanese.

Gastin said when the project in Australia became politically unsustainable as a joint Japanese-Australian project, "Australia set about declaring that the MFP was always an Australian project". The Japanese were left wondering why there was a joint feasibility study and joint steering committee if that was the case. Gastin said "it became clear to Japan at the end of the feasibility study that Australia wanted to do it. They said they are still interested, but have stood back and waited for Australia to take the initiative".

Gastin said of this phase of the feasibility process that after the Final Consultants' Report was produced (in December 1989) he had wanted to "shut down" that phase of the process. He produced the Multifunction Polis Joint Secretariat Working Document which argues for a reassessment of the issue of site specific subsidies on the basis that commercial viability cannot merely be hinted at, it must be led by specific investor support, which is only likely to be forthcoming if there is prior public sector commitment. The Working Document argues that the government's commitment to providing 'normal' city infrastructure could be used as the vehicle for providing incentives. For example infrastructure "could also include serviced industrial land or modular

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103 Denis Gastin (1994).
104 Ibid.
105 Ibid.
factories for those who do not have highly specific (sic) requirements.\textsuperscript{107} Gastin resigned hoping to precipitate some action but he said inertia took over. "Nothing happened, the Joint Steering Committee never resolved or decided anything".\textsuperscript{108} Site ranking and site selection continued to be based on the nine principles.

The result was a fragmentation of activity. Commercially viable opportunities became disassociated from the urban development aspect of the MFP, which was pursued doggedly in the belief that Japanese funding depended on it. It became clear once the Gillman site was chosen, that Japan had no intention of paying for either the clean up of the site or for site development. The lack of subsidies or concessions undermined any contribution that Japan was prepared to make. It was only subsidies or concessions that could have brought together the urban development aspects that Japan needed in order to justify its involvement at home, with the commercial opportunities which Australia needed to regenerate domestic growth.

In no sense did Australia learn any lessons about the virtues of strong state/strong business in either MITI's or Hart's terms. It acted with some strength in establishing the opportunity for a new investment relationship with Japan and the payoff for that was that business did organise itself to produce a response which could have formed the basis for a national development strategy - which was Button's hope.\textsuperscript{109} The only chance the MFP ever had of meeting Australia's objectives, was if the state and business had jointly driven the project.

\textsuperscript{107} Ibid., p. 33.
\textsuperscript{108} Denis Gastin (1994).
\textsuperscript{109} Senator John Button (1993).
WHAT HAPPENED TO MANUFACTURING?

Introduction

Between its election in 1983 and the Investment Mission exchange in 1986/87 between Japan and Australia, the Australian government's commitment to technological growth underwent something of a transformation. High technology had become the symbol of Labor's growth trajectory during its election campaign and the development of ‘sunrise industries' was to be the means by which Australia would catch up with the technological revolution which was sweeping the globe. By 1986 the emphasis had shifted to research and development (R&D) as the government's symbol of growth. Although economic rationalism was not to take full flight until 1987 the influence of economic liberalism had been growing since the mid-1970s. Its adherents, particularly in Treasury and Finance, were opposed to any form of targeted assistance believing that bureaucrats were likely to cause more problems than "to determine the pattern of economic change".  

The institutional embargo on interventionism together with the emphasis on R&D as the policy framework for the development of high technology led to some interesting distortions in the articulation of economic theory and in the interpretation of statistical evidence to support the virtues of the unfettered market. However, the only way the MFP would ever be able to foster high technology growth would be by identifying specific

opportunities, targeted with special assistance or incentives for development. A solid R&D base was identified as an important element in the development of the MFP, and the ready availability of risk capital was identified as being important for the development of high technology industry, but these elements alone would not guarantee development of an MFP as a site for the development of high technology industry.

This chapter examines the Australian policy environment into which the MFP proposal was introduced. It also explores some of the arguments made by advocates of a stronger role for government in the development of a suitable infrastructure for Australian manufacturing. The chapter argues that the MFP development phase provided an opportunity to establish such an infrastructure through collaboration with the Japanese but was undermined by the prevailing policy environment which was shaped by economic liberalism.

It has already been pointed out that MITI's original description of the MFP was as a 'locus for industrial development' and that the impetus for the idea derived directly from Japan's survey of the Australian economy in 1987. This survey in turn focused on the industries which Senator John Button, as Minister for the Department of Industry Technology and Commerce, had designated as preferred areas for Japanese investment during his visit to Japan in 1986 (see below). They included in the survey for their own purposes, the resort industry which was found to have high growth potential. Button's preferred industries, the surveyed industries and those outlined in the Basic Concept Report are listed for ease of comparison as follows.
The targeted audience of the Survey Mission Report was potential Japanese Investors. The following are extracts from the recommendations of the Report that relate to the industries selected for development in the MFP. The findings are duplicated in the Basic Concept.

### Computer software industry

The Survey Mission Report found this industry to have "superb labour resources and ideas" and a growth potential of $1.7 billion by 1992 for its packaged software. The Report pays particular attention to the tax concessions, subsidies and grants that flow to this industry and suggests a suitable area for investment would be the development of application

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2 Senator Button visited Japan in November 1986 with a team of businessmen and these targeted industries are outlined in Japan Overseas Enterprises Association (1987), p. 90.


4 Ministry of International Trade and Industry (1987b), pp. 14-25 and pp. 45-55. The other aspects not listed here are Medical and Health Care, Education and Training, Information and Transport systems which were designated to be part of the urban infrastructure, pp. 25-44.
software for technical calculation, safety management and artificial intelligence. 5

The *Basic Concept* notes that, despite Australia's commitment to the development of this industry, it has difficulties in commercialisation because of the small size of Australian business. Cooperation with Japan in this endeavour would be likely "to lead to the development and manufacture of highly competitive software packages made in Australia by fusing such results with Japan's advanced mass production technology". Software developed in this way could provide opportunities for export to the rest of the world.6

**Rare metals and Rare earths:**
The *Survey Mission Report* acknowledges these to be "essential materials for Japan's advanced industries".7

The *Basic Concept* stresses the importance of these industries for "the reduction of processing costs and manufacture of higher value-added products"8 and "to strengthen the business base and export capacity of existing manufac- (sic) and promote new industries".9 Especially important in this regard is the development of new ceramics such as silicon nitride, silicon carbide, carbide and zirconium oxide. New materials and rare metals are useful for Japan but also, they suggest, for Australia. Not only is demand for unprocessed rare metals high but there

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is significant export potential for parts processed to specification and for associated intellectual property.\textsuperscript{10}

**Biotechnology**

The *Survey Mission Report* found this industry to have the greatest potential for development.\textsuperscript{11} It says:

> There are many opportunities to conduct highly cost-effective operations with Australia as a base in order to meet international demand for the many biotechnological products that already exist or can be expected to result in the future from a combination of investment and technological strengths with Japan.\textsuperscript{12}

The *Basic Concept* emphasises the possibilities for biotechnology because of Australia's good research record, high levels of technology and education and competitive labour costs and efficiency in that field. They further point out that Australia has requisite raw materials and agricultural products to support biotechnology manufacturing and suggest that Australia is highly suitable for the establishment of a fermentation industry, especially considering the spatial requirements for future expansion of that industry.\textsuperscript{13} It further points out that Australia's ability to commercialise its hitherto government funded research "is likely to grow swiftly with the right stimulation from an international export partner" and suggests that "the injection of Japanese investment and technology" into this field "will create many opportunities for business with a high cost efficiency".\textsuperscript{14}

\textsuperscript{11} Japan Overseas Enterprises Association (1987), p. 312.
The other industries were not found to be as attractive for investment. The *Survey Mission Report* found the communications equipment industry to be undermined by its components industry which was "lagging far behind the equipment industry". The report says that "rectifying this fundamental imbalance is not only a matter of urgency for development of the telecommunications industry, but an important point for encouraging Japanese investment". Australian automotive parts were found to be expensive due to the small market and "pyramid structure" of the automotive industry. Their recommendation was for Australia "to identify the areas (products) for which they desire investment or the provision of technology and hold specific talks on a company-to-company basis" with potential Japanese investors. The food processing industry "experiences little competition and generally lacks innovation", and requires "powerful government support ... and strong and unified moves by government and private enterprise" to develop export markets.

It is easy therefore to see the logic behind the industries selected for development in the MFP. Japanese investment in the computer software and biotechnology industries was considered to offer benefits to both countries - to Australia in terms of their export potential and to Japan as suitable sites for profitable investment. The rare metals/earths industry was found to have potential for Australia in terms of exports, but for Japan the benefit would be stability of supply.

Although DITAC had sought Japanese investment in seven targeted areas as the means to revitalise Australian industry and to create an export

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oriented manufacturing sector, the development of high technology industry was not a clearly articulated goal in Australia prior to the MFP proposal. The private sector had been notorious for its lack of commitment to innovation and new technologies; for example in the early 1980s Australia was spending only 1 per cent of its GDP on research and development, and of that only 0.24 per cent was spent by the private sector, while the average for comparable countries was four times that amount.\textsuperscript{19} The proportion of R&D investment to investment in new technology in 1986 was also only one per cent, compared with 7.6 per cent in the U.S. and 6.1 per cent in Sweden.\textsuperscript{20} Despite its larger contribution to R&D, government had also been complacent about the development of high technology industry. Macdonald argues that industry ministers during the Fraser period had been committed to preserving the established industry structure, a job made easier by the ignorance of ministers about what high technology actually was. Industry and Commerce Minister Phillip Lynch had gone as far as admitting that he didn't know what biotechnology was, while Science and Technology Minister David Thomson said he believed Australia already had all the qualities necessary to establish high technology companies.\textsuperscript{21}

From 1981 onwards, Barry Jones made it his business to alert Australians to the importance of high technology for Australia's future growth prospects. He identified 16 'sunrise' industries for development and argued for targeted assistance by government.\textsuperscript{22} The aura of crisis he created around Australia's lack of high technology industry was exploited by the Labor party in its election strategy. The party used its

\textsuperscript{19} Hugh Emy (1993), p. 147.
\textsuperscript{20} Japan Overseas Enterprises Association (1987), p. 70.
commitment to high technology as a solution to the crisis while blaming
the Fraser government for causing the crisis by neglecting Australia's
technological base. Hawke threw his weight behind Jones' concept of
sunrise industries, claiming that "it is a matter of urgency that Australia
take steps towards developing new high technology sunrise industries as
wealth generators, and to compensate for the long-term decline in
employment in our traditional manufacturing industries". Fraser
announced a $10 million National Biotechnology Scheme a few weeks
before the election but it was too little, too late for a disaffected electorate
whose consciousness had been raised during the Labor Party's election
campaign about the consequences of being bypassed by the technological
revolution.

The concept of sunrise industries almost immediately fell into difficulties
because it threatened established industry sectors. The Metal Trades
Industry Association expressed concern that support for sunrise
industries would draw resources away from existing industries.
Objections by some sections of the union movement appear to have been
the reason why Jones was denied the opportunity to address the 1983
National Economic Summit on the issue and the Department of Science
and Technology itself had difficulty with the concept. Joseph argues
that its use as a symbol of unity "had begun to break down once it was
subjected to closer scrutiny".

113.
25 Ibid., pp. 113-114.
26 Ibid., p. 115.
27 Ibid.
The idea of targeting specific sunrise industries in any case was anathema to the economic liberals in Treasury and Finance who interpreted any form of government assistance as 'picking winners'. For them export capability was a matter of building on comparative advantage and only those companies that could survive without assistance should survive. Their attitude was responsible for the recasting of sunrise industries as 'key technologies' by the Department of Science and Technology so that they could argue about the virtues of technological priorities rather than focus on specific industries. The Department of Science and Technology's willingness to accommodate the embargo on picking winners sat uneasily with the new Labor government's commitment to high technology as a central feature of its program of economic restructuring. By the 1984 election campaign, Labor had resolved the problem by replacing 'high technology' with 'research and development' as the symbol of its approach to economic restructuring. The 150 per cent tax deduction for R&D, the development of a venture capital market and the Australian Industrial Research and Development Incentives Scheme were considered to be more appropriate ways to influence business investment than the development of sunrise industries. Jones lost responsibility for technology that year when it was taken over by the Department of Industry and Commerce, to become the Department of Industry Technology and Commerce (DITAC). The Department of Industry and Commerce had been a fairly conservative department and the inclusion of technology into its portfolio meant that technology's transformative potential was absorbed "into the more established and manageable aspects of economic life". High technology

30 Ibid., p. 121.
31 Ibid., pp. 121-122.
merged with the more general and ongoing concern with technological development per se, while R&D continued to provide the policy framework for innovation and the development of new technology.

DITAC's first official response to the MFP proposal was outlined in *The Multifunction Polis Proposal: One Australian Perspective*. It says that "[t]he MFP will operate as a 'hot house' for the development and application of innovative ideas", including education, research and development, high technology manufacturing, communications, transport, construction and lifestyle. It stresses that the success of the project will depend upon "innovative and outward looking companies capable of identifying opportunities with a longer term perspective". Given the dearth of such companies in Australia, this was a tall order. BHP was (and is still) Australia's only 'strategic exporter' of manufacturing. The paper goes on to discuss the initial development phase of the MFP and what part government could or should play in that phase. Drawing on the experiences of the U.S. Boston Triangle and its association with the Massachusetts Institute of Technology, and Silicon Valley and its association with Stanford University, it suggests that government should develop an "appropriate infrastructure" in the form of a government-funded university to attract suitable economic activity to the MFP. The paper is littered with examples of how the establishment of research and development facilities would "provide considerable impetus to further entrepreneurial activity". For example, the paper says that an MFP based on advanced telecommunications and a commitment "to researching and implementing further advances" would attract new

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33 A strategic exporter is "a company for whom exports are a primary focus, as compared with those who export from time to time, or opportunistically", Hugh Emy (1993), p. 145. 'Outward looking' is another way of saying 'export oriented'.
enterprises; a focus on space and aerospace would advantage Australia because "these are areas where Western nations are spending large sums on basic research"; working with Japan on robotics research would benefit Australia's private sector efforts in this area; fine ceramics research would "provide a useful focus for basic research collaboration" with Japan, and an obscure reference to opportunities for transport says "experimental development of mass transit systems may prove viable with links to the MFP via both the research and development applications".\(^3\)

DITAC was on firmer ground when it suggested that opportunities might exist for traditional manufacturers such as motor vehicles, whitegoods, medical and scientific equipment to be linked to innovations in the metals area, such as process engineering and product development, but even then they had to admit that "some reluctance may be met in the initial stages, perhaps as a result of a long-standing reluctance to perform large scale R&D or to become involved in inter-firm collaboration."\(^4\)

It has already been argued that the establishment of research infrastructure alone does not catalyse entrepreneurial activity but, having abandoned a targeted industry approach in favour of R&D, the result was DITAC's hopelessly inadequate attempt to describe how an R&D infrastructure would translate into economic activity in the context of the MFP.

The question of appropriate infrastructure, however, was important. Jones had been arguing since the early 1980s that Australia's infrastructure was unsuited to the development of high technology industry. He believed that appropriate infrastructure could be created through the establishment of a venture capital market but attempts to do that simply proved that the problem was deeper than the lack of risk

\(^3\) Ibid., pp. 15-18.
\(^4\) Ibid., p. 19.
capital. However, these two elements remained as the basis for the development of MFP industries. It is instructive to examine what an appropriate infrastructure would look like for the development of high technology industry if not just government funded universities and research establishments and a venture capital market.

In an economic rationalist's ideal world, the appropriate infrastructure for all economic activity is a level playing field. In this view any factors which inhibit the smooth operation of market forces are described negatively as "structural rigidities." An appropriate infrastructure for economic rationalists would be one where these rigidities were eliminated in the interest of establishing the level playing field. If high technology enterprise could not flourish in this environment, then capital should be reallocated to more profitable economic activity. Policy makers, moreover, should not be concerned with what type of industry structure is created by the market. Stanford usefully summarises the basic precepts of this philosophy:

- the unfettered operation of markets is the best determinant of the allocation of factors of production between competing industries and activities;
- the stance of macro policy, the exchange rate and the level of factor prices determine employment and we should be indifferent as to the activities in which factors are employed;

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37 Ian Reinecke (1989) argues that "success stories are heavily outweighed by failures among small indigenous information technology companies. ... There is a familiar pattern to the demise of most of these companies. ... Each appears to have depended on 'blue skies' - including a bullish sharemarket, sympathetic investors and government assistance - to develop a marketable product. When for a variety of reasons, prospects became cloudy, the companies fairly quickly built up unsustainable debts or failed out of hand". Far from being a shortage of venture capital, at least before the 1987 stock market crash, the industry was "awash with it. In some cases the ready availability of funds appears to have encouraged mismanagement to the point of blind. pp. 38 and 40.
the objective of microeconomic policy should be to remove barriers which distort market signals, and to promote a competitive environment;

although markets do sometimes exhibit imperfections it is unlikely that intervention will provide a better outcome than the imperfect market solution;

Australian industrial policy has proved to be a disaster in the past; in attempting to pick winners it has chosen costly losers and future interventions would have a similar result; and,

the view that other successful economies owe their success to intervention is a myth - they succeeded despite intervention rather than because of it, and, in fact, countries such as Japan would have performed even better if they had created a more level playing field.39

This is a view of economic management which is preoccupied with the allocation of resources rather than the creation of advantage. The idea that Japan's performance would have been even more impressive than it was in the 1980s if government had not intervened stems directly from the theory of comparative advantage which holds that a nation's competitiveness depends upon the development of its natural resources or "given factor endowments". The reduction of resources to measurable factors of land, labour and capital means "remarkable intellectual contortions" must be undertaken to prove the theory in the face of Japan's high wages and absence of available land. Ewer et al say that
to overcome the difficulty that a country like Colombia, with very low wages, natural resources and proximity to a very large market is dramatically outstripped in manufacturing performance by east Asian countries with higher wages and no natural or geographic advantages ... these economists... have... come up with the remarkable thesis that lack of natural resources is a crucial advantage for a manufacturing country.40

Despite these types of criticisms Australia's policy environment has been heavily influenced by these economic views since 1987. Economist Ross Garnaut was commissioned by the Hawke Labor government to report on changes in the Northeast Asian region and to assess the implications and opportunities for Australian trade. His report of 1989, *Australia and the North East Asian Ascendancy*, was written well before anyone could have predicted the South East Asian currency crisis and the Japanese recession of the late 1990s. It is based on what he perceives to be a complementarity between the comparative advantages enjoyed by Australia and the countries of North East Asia, which essentially boils down to three broad themes: the need of N.E. Asian countries for materials and produce to fuel their growth and Australia's ability to supply them; Australia's need for skilled labour and capital and their ability to supply them; and our attraction as a tourist venue and their desire to travel. The North East Asian region emerged rapidly in the late 1980s as a major centre of production, trade and savings and threw out of balance the other major power centres, North America and Europe, thus providing opportunities for countries like Australia to shape the new balance. Garnaut's recommendations fell into three main categories:

- Australia should use the advantage of its European background and its status as a middle power to ensure that the new balance works to our own advantage, particularly to secure trade liberalisation.
- Australia should reorient its educational institutions to develop a future generation of Australians who are confident in their diplomatic and business dealings with the region.
- Australia should accelerate the process of economic reform at home, including the removal of all tariffs by the year 2000 and the
development of non-discriminatory direct foreign investment and economic-oriented immigration policies to facilitate expanded economic interaction with the region.

It should be noted that, despite the economic problems experienced in the region in recent times, Garnaut still holds that diminishing returns on investments do not stall growth, they simply slow it down. He says "the experience of East Asia has been one of rapid growth, to be maintained until the frontiers of productivity and income levels in the advanced countries have been approached" and that evidence does not support the need for any theoretical shift in economic policy.\textsuperscript{41}

His 1989 report sparked extensive debate in Australia,\textsuperscript{42} with many critics doubtful of the benefits of pursuing trade liberalisation. For example, Caporaso argued that if equity and balance in complementarity were not assured, then heavy dependence upon one region could bring catastrophic losses if trade patterns were disrupted,\textsuperscript{43} a point which has some commentators now expressing relief that over-dependence did not occur. Leaver raised questions about the underlying assumptions of "a pluralist sharing of the burdens of leadership amongst those states which stand to gain from an open trade regime", and the wisdom of putting all our eggs in the basket of multilateralism with no fall-back position;\textsuperscript{44} Matthews and Ravenhill questioned Australia's ability to play on a level playing field, when many of our competitors have opted for targeted growth and adopted policies which compensate failing firms and retrenched workers;\textsuperscript{45} and Trace raised doubts about the ability of Australian

\textsuperscript{41} Ross Garnaut (1997).
\textsuperscript{42} Most of the debate is covered in J.L. Richardson (ed) (1991).
\textsuperscript{43} James A. Caporaso (1991), p. 15.
\textsuperscript{44} Richard Leaver (1991), p. 51.
institutions to respond to Garnaut's call for new attitudes and policies given the extent to which they have been shaped by the long history of protectionism in this country.\(^{46}\)

Economic rationalism's preoccupation with generalised economic performance also leads to an interpretation of statistical evidence which supports a theory of industry evolution, downplaying the strategic importance of manufacturing in the development of the services industry. The decline in manufacturing employment is not treated as a matter of concern, rather the concomitant rise in service employment is taken as proof that the evolutionary process is working as it should. In the U.S. Cohen & Zysman argue that services are hailed as the latest stage in the process of industry evolution because of generalisations which are made about the relatedness of activities such as crop dusting and farming, and these generalisations allow unproblematic linkages to be assumed between more loosely related activities, such as advertising and motor vehicle production. They claim this is a 'statistical muddle' which allows the development of "policy based on a notion of industrial succession - up out of one sector and into another'\(^{47}\).

It is clear from the ideological confusion which existed in Australia in the mid 1980s about how to nurture high technology industry, that a similar muddle was responsible for a corresponding failure of vision. Not only does the preoccupation with allocation of resources lead to solutions such as trade liberalisation, the concept of industry evolution allows Australia's problems to be understood and managed in a way which comfortably reinforces the 'rightness' of factor analysis in the first place. From an

\(^{47}\) Stephen Cohen & John Zysman (c. 1987), pp. 4-5.
industry evolution perspective, Australia's primary sector, built on natural advantage and free enterprise, has been leeched of its dynamism by a parasitic secondary sector. The type of manufacturing which developed in Australia appears as an anachronism, having come into existence only through government intervention in the form of protection. Had market forces prevailed, Australian industry would have evolved in a way which capitalised on, or added value to, our natural assets. We may, for example, have seen the development of new materials, further refinement and processing minerals, foodstuffs and other agricultural produce. Removal of protection which has supported inefficiency in the manufacturing sector will now allow Australia to further develop its natural advantages. As in the U.S., the rise in employment in Australia's service sector is read to prove assumptions about industry adjustment.48 Export performance is still a matter of deep concern, but industry evolution is back on track.

It is these types of assumptions that underpin Garnaut's ideas about future trade opportunities. The Northeast Asian region is identified as Australia's most important market for foodstuffs and unprocessed raw materials, but also as our fastest growing market for processed materials and related services. His call for the removal of tariffs was based on the argument that they impede the natural complementarity between Australia and the region. For example when Australia protects its motor vehicle and textile clothing and footwear sectors and Northeast Asia protects its agricultural sector, the situation that results is one where

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48 Australian Science and Technology Council (1990), says that "History has shown an oft-repeated sequence of growth in manufacturing relative to primary industries, followed by an increase in the size of the service sector compared with both the primary and manufacturing sectors", p. 121. It goes on to say "In Australia service industries account for 75 per cent of GDP ... and about the same proportion of employment. This makes the sector three times as large as agriculture, mining and manufacturing combined", p. 124. What ASTEC does not acknowledge is that world trade in complex manufactures is outstripping growth in services. See Ralph Evans (1990), p. 35.
protection in both regions is the "highest in industries in which each other is the world's most competitive supplier". He suggested tariffs be eliminated in Australia as an act of economic diplomacy, to demonstrate by example the benefits to be gained by reducing impediments to complementarity. He rejected criticisms that partial trade liberalisation has not delivered on its promise of stronger export performance on the grounds that all restrictions have not yet been removed and that "the level playing field has not yet been tried".

Garnaut rests his claim for economic diplomacy as the means to secure trade liberalisation upon the successful liberalisation of the Japanese beef industry. In the late 1970s the U.S. used its bargaining strength with Japan to negotiate for increases in Japanese beef import quotas in favour of the U.S., effectively squeezing Australia's share of the market down from 54% in 1980 to 40% in 1988. Through appeals to GATT principles by Australia in its communications on the issue with both the U.S. and Japan, and by intense lobbying of Japanese officials and direct appeals to Japanese consumers pointing out the benefits to them of trade liberalisation, a commitment by Japan to replace quotas with a declining tariff rate was finally secured. Meat exports to the Northeast Asian region subsequently increased from 176,000 tonnes in 1988 to 296,000 tonnes in 1990. The argument for trade liberalisation on the basis of the success of the beef issue is generalised to other sectors. This is evidenced in his 1992 follow-up report Accelerating Change, which revisited Garnaut's analysis in light of regional changes, and which claimed that exports of elaborately transformed manufactures to the

50 Ibid., p. 78.
52 Ibid., pp. 199-200.
53 East Asia Analytical Unit (1992), p. 52.
region had improved to the extent that by 1990 they had "almost equalled
the value of meat exports". In this way claims for the benefits of trade
liberalisation are validated, and by extension, unproblematically include
manufactures.

Accelerating Change acknowledged that structural changes in the region,
mainly created by the rising yen and the subsequent relocation offshore of
some sections of Japanese industry, had changed patterns of
consumption leading to demand for higher value imports. Australia's
share of increased ETMs to the region is explained as proof of its improved
competitiveness and diversification, justifying Garnaut's appeal for
macroeconomic reform as the basis for industry restructuring. However,
Ravenhill pointed out in 1992 that the three largest exporters of ETMs to
the region have been the motor vehicle industry which comprised 16%
of the total, telecommunications equipment comprising 12.5% and
photographic film 5.2%. He argues that these figures cannot be used to
support the argument for further macro-economic adjustment in the form
of tariff removal because they are in fact an argument for the effectiveness
of industry intervention. In the first case, motor vehicle exports have been
facilitated by "the government's car plan with its provision for exports", in
the second case by "requirements for offsets, research and development
and partnership arrangements", and in the third case by Kodak's "own
form of industry plan". Carter similarly noted in 1990 that every
significant exporter in Australia of ETMs "has been a recipient of
government assistance over the past four or five years."

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54 Ibid., p. 4.
55 Ibid., p. 136.
56 Ibid., pp. 54-55.
58 Colin Carter (1990) notes that the only major exporter Australia has is BHP. The next biggest,
separated from BHP by a large margin are Holden, IBM, Kodak, Hawker De Havilland and Ford, p.
209.
Carter was a co-author of a report commissioned by the Australian Manufacturing Council (AMC), published in 1990 as *The Global Challenge*, which was a direct repudiation of 'the level playing field' and 'complementarity' arguments used by Garnaut. The report pointed out that while Australia had indeed seen improvements in productivity and exports, its trade deficit in ETMs was huge - estimated at over $2000 per person in 1990 - and still growing. It did not disagree with Garnaut's call for reduced tariffs, but rejected their total elimination by the year 2000. Instead it called for a continued phase down complemented by specific measures to redress some of the structural problems which plague Australian industry including lack of strong export-oriented manufacturing firms, poor business practices and complacent attitudes among both management and workers, high business costs including investment capital, power, transport and construction costs and unreliable approval processes and port facilities. It called for a stronger role for the state in redressing these problems and recommended targeted assistance in the form of risk sharing for strategic development of export markets, strategic government procurement and continued assistance for new exporters. The report singled out the automotive, computer, telecommunications equipment, aerospace and pharmaceuticals industries on the basis of their strategic importance to the economy and their potential to create vertical linkages with other industries.

60 Australian Manufacturing Council (1990), chapter 3.
Despite being relatively conservative in its recommendations, *The Global Challenge* failed to make a significant impact on the 1991 Industry Statement *Building a Competitive Australia* which specifically endorsed the economic model upon which the Garnaut Report was based. Ewer Higgins and Stevens are among the most outspoken Australian critics of that model and its impact on Australian manufacturing. While their work predates the AMC Report and is more substantive, there is a complementarity in their identification of weaknesses in the Australian industry infrastructure. It says that if Australia is to develop a viable export industry in manufactures it cannot hope to diffuse new technologies by freeing up the market, but must first ensure that it has a diverse but integrated industrial base and skilled management and workers. Without these ingredients there is no means by which new technologies can be efficiently diffused, utilised or adapted. The AMC Report takes this point a step further. Australia cannot hope to develop an effective export market in high technology manufactures unless it builds up a strong industry base that can then be used to forge links with multinational corporations. Partnership agreements, for example, trade access to the Australian market for the co-location of some value-added or R&D facility. The Report argues that major multinationals expect to make this type of commitment as a normal part of doing business with its trading partners. If Australia is serious about exporting high technology manufactures such as information, computer and telecommunications equipment then it must first make a commitment to creating "a general economic environment conducive to manufacturing development" and to nurturing linkages between industries to facilitate diffusion of new technologies throughout the economy.

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64 Department of Prime Minister and Cabinet (1991), p. 1.7.
66 Australian Manufacturing Council (1990), Chapter 8.
The AMC Report advocates moving toward the creation of what Cohen and Zysman call a new production paradigm. The production paradigm characteristic of western industrialised nations derives from the industrial structure which developed in the United States based on Fordist mass production technologies and a hierarchical management structure which 'froze' with the development of stable oligopolies in the steel and automotive industries, deflecting competition based on production costs and technologies. Competition was limited to stylistic changes rather than being based on technological innovation. Around this structure "developed elaborate systems of labor relations and comparably complex systems of management training, recruitment and reward". The western production paradigm is open to challenges from countries such as Japan whose production paradigm is characterised by flexible development. Unlike their American counterparts who tend to make developmental leaps, Japanese industries develop incrementally with much greater emphasis placed on the way production is organised. In Japan new technology is adopted in a way which enables firms continuously to upgrade and adapt the production system to lead demand by the rapid introduction of new models, or new products. Continuous product tooling and design has created a skilled workforce with the ability to implement the required rapid changes, hence new technologies do not replace skilled workers, rather "[i]t is the capacity to manage the continuous evolution of the production system, and not merely the ability to operate an automated factory, that is the competitive meaning of postindustrial manufacturing". In contrast to the American system of

68 Ibid.
69 Ibid., p. 49.
70 Ibid., p. 45.
"static flexibility" the Japanese have developed a system of "dynamic flexibility". It is an entirely different production paradigm linking management and production strategies to technological development in fundamentally different ways.\textsuperscript{71} Cohen and Zysman argue that complex systems of management and labour relations in the west result in a "social inertia" about the structure of production which limits a firm's ability to reorganise production, allowing them to capitalise on the introduction of new technologies.\textsuperscript{72}

Chapter four argued that Japan was more than willing to share its corporate strategies with the rest of the world and that the MFP may have been conceived as an appropriate mechanism for demonstrating those strategies to Australia and to other international participants in the project. Australia had moreover self-diagnosed its economic problem as lack of manufactured exports. Why then, did the MFP proceed as a service based concept? One of the reasons is that when the MFP think tanks were putting together their industry visions, the decision was made to disestablish the twenty first century manufacturing think tank because the Australian Science and Technology Council (ASTEC) was concurrently undertaking a review of manufacturing in Australia.\textsuperscript{73} The focus of the ASTEC inquiry\textsuperscript{74} was on industry sectors (Primary Industries, Manufacturing and Services) rather than individual projects, so the MFP could not be discussed. Also by focusing on industry sectors rather than specific firms\textsuperscript{75} it stayed within a generalised framework and ended up by identifying the same sorts of opportunities for development that are

\textsuperscript{71} Ibid., p. 48.  
\textsuperscript{72} Ibid., p. 43.  
\textsuperscript{73} MFP Australia Research Ltd. (1989c), p. 1. The paper says that the 21st century manufacturing think tank was "not convened due to ASTEC overlap".  
\textsuperscript{74} Australian Science and Technology Council (1990).  
\textsuperscript{75} R.I., Martin (1990).
outlined in the Garnaut Report - for example meat and livestock, base metals, food and beverages and services. The only high technology manufacturing opportunities that were identified were in the areas of medical and scientific equipment and defence. The ASTEC recommendation for promoting better use and understanding of technology was to monitor more closely existing government programs such as the 150 per cent R&D tax incentive, the Grants for Industrial Research and Development scheme, the National Procurement Development Program and the National Industry Extension Service.

Manufacturing generally runs a poor second to services in the Report. Rather than recognising, as The Global Challenge did, that the provision of services depends upon a strong industrial base, the ASTEC report enthused over the opportunities which services will provide for manufacturing.

Increasingly, opportunities for manufacturing will arise from linkages with other sectors of the economy. Service industries can enhance the development of manufacturing by increasing the size of the market (tourism, for example, generates enormous demand for information technology products, construction materials and consumers goods), by providing authoritative endorsement of Australian-made products (for example, in medical and education services), and by stimulating development of uniquely designed products (for example, construction designs created especially for the Australian climate and conditions). The emergence of large, Australian-based transnational services companies in recent years provides manufacturers with a core of leading-edge customers who can be major facilitators of local innovation.
Here is a perfect example of the muddle-headed thinking that holds that a strong manufacturing base can be created by the stimulation of demand in services, despite the substantial evidence that increased demand in Australia simply results in more imports.

A review of ASTEC undertaken in 1992 found that its process of consultation with the private sector was deficient. It says that "although key industry people were consulted on their views they were not consulted on the analysis and findings that ASTEC developed as a result".80

Another of its findings was that ASTEC places too much emphasis on traditional R&D with a consequent lack of emphasis on non-S&T [science and technology] factors affecting the development use of technology such as those that arise from industrial and institutional structures, the importance of generic technologies and the increasing internationalisation of science and technology.81

This was the organisation that was left with the responsibility for the inquiry into manufacturing which justified the exclusion of twenty-first century manufacturing in the MFP think tanks. Remembering that it was the task of the think tanks to formulate a long term vision for the growth of their particular industry by key industry people themselves, the exclusion of manufacturing from this process was nothing short of scandalous. It is also rather puzzling that it was only manufacturing that was separated out from the MFP think tank phase as a result of the ASTEC inquiry in the light of the fact that the primary industry and service sector were also under review by ASTEC. It can only be assumed that, had a manufacturing vision been put together by the industry itself in the context of the MFP, it would have come up with similar suggestions.

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80 ASTEC Review Committee (1992), p. 29.
81 Ibid.
to those made in the AMC Report, which followed the MFP think tank phase by a matter of months. Asked why manufacturing had not remained part of the MFP process, Denis Gastin said it was because "Australia could not find a rationale for it". That rationale may well have been provided if manufacturing industry had been given a more central role when the think tanks were organised.

The astonishing thing is, that as late as September 1989 MITI was still operating under the assumption that manufacturing was part of Australia’s MFP vision. An internal message from MFPAR to DITAC makes this clear:

MITI are still working on the basis of the Amaya Investment Mission Report which, along with the Button Investment Mission targeted mainly manufactures. In other words it would seem that MITI and JDC [Japan Domestic Committee] member companies have not yet really caught up with the fact that in the MFP context, we are now promoting primarily service based activities.

When Button was asked to respond to the contents of this message, he said that he was "totally unaware that MITI had in its mind manufacturing". Button had led the Investment Mission to Japan in 1986 to promote a new investment relationship with Japan to develop high technology manufacturing in Australia and it was that visit which began this whole process. DITAC had manufacturing on its mind and MITI was continuing to work from that premise. If Button’s ignorance of MITI’s position is remarkable in this context, then what can be said of his understanding when MITI pulled together the Japanese Domestic

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82 Denis Gastin (1994).
83 Extract from fax 21 September 1989 from M. McCarter MFP Australia Research Ltd. to Neville Stevens DITAC (permission granted by Ms. Sue Britten-Jones, MFP Adelaide, to use this quote).
Committee including 40 manufacturing related industries out of a total of 85 member companies.\textsuperscript{85}

**Conclusion**

It is hard to image that Australia could have made a bigger mess of responding to the MFP proposal. Not only were the Japanese subjected to a xenophobic reaction from some sections of Australian society which stemmed from a deep distrust of their motives, Australian officials seem never to have recognised their own part in shaping Japan's thinking about the MFP. It appears that the Japanese were genuine in their desire to lend a helping hand to Australia, based on their own interpretation of the country's economic problems. Their interpretation was of course coloured by their own experience as an economic superpower based on their home grown corporate strategies and constitutive principles. It remains to be assessed whether it would have been in Australia's interests to recognise what was being offered. There had been a significant move in Australia toward recognising the static nature of the western production paradigm around this period. But to what extent would the adoption of the Japanese production paradigm have benefited Australia? There are not many Australians who would trade places with Japanese workers, because it is they who bore the burden of Japan's success. The following chapter examines the vision of the Australian trade union movement for creating an inclusive, participatory role for unions and its influence on their response to the MFP.

\textsuperscript{85} Department of Industry Technology and Commerce (1989). Attachment E.
CHAPTER EIGHT

UNIONS, POST-FORDISM AND THE MFP

Introduction

The process of economic restructuring in Australia began in a systematic way early in the 1980s under the Hawke Labor government. Along with economic restructuring came a growing recognition of the need for an entirely new production paradigm. Management and unions alike were beginning to understand that the rigidities associated with traditional industrial relations were inhibiting the country's ability to compete in international markets, particularly its ability to meet the challenges from the Pacific Rim economies. Both management and unions jostled to influence the policy environment to favour their own view of what needed to be changed. Both articulated a desire to cooperate in the achievement of a new production paradigm but management favoured reforms which would reduce the influence of unions, while unions favoured reforms which would increase their role in decision making, both in the workplace and in setting national goals.

Management views were informed by American management theory and Japanese corporate strategies, both of which were voiced in terms of the benefits which would accrue to workers, especially by adopting a more flexible approach to the organisation of work. In reality these strategies favoured marginalising union power, intensification of work and reduced wage costs. Union views were informed by the theory of sympathetic academics, including John Mathews, who urged unions to take the
initiative in shaping the policy environment in accordance with their own goal of a democratised economy. Mathews recommended that they do this by seeking an accommodation with capital. This chapter unpacks both business and union views and contends that the types of arguments put forward by Mathews, which are based on a pluralist model of power sharing, are inadequate to meet the challenges from management which seeks to reaffirm its structural power under the guise of a humane concern to improve worker satisfaction. Union responses to the MFP are considered in this context and it is argued that their rejection of class analysis as irrelevant to the articulation of union goals in the era of post-Fordism, together with their desire to reach consensus with management over change, renders them unable to shape the agenda on their own terms.

The original Accord was the first step taken in Australia towards the articulation of a new production paradigm, although it certainly was not discussed in those terms. The union movement took the initiative in response to the increasing reliance by the Fraser government on fiscal, monetary and exchange rate policy to manage inflation without consideration for the consequences for employment.1 Unions advocated a prices and incomes policy to manage inflation which in turn would allow more responsible, longer term economic management, as opposed to Fraser's short term wages freeze which placed the burden of adjustment on to workers without addressing the underlying causes of Australia's economic problems.2 The original Accord was therefore an attempt to

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1 Australian Labor Party and the Australian Council of Trade Unions (1983), Appendix A, p. 159.
2 Ibid., pp. 160-161.
shape the policy environment within which restructuring could occur and was essentially a trade off between wage restraint by workers in the form of centralised bargaining and wage rises limited to CPI increases, for a return to full employment, price restraint, tax reform and improvements in the social wage. Full employment was to be achieved via a comprehensive interventionist industry policy supported by a planning structure, including tripartite consultation at specific industry levels.3

Employers initially regarded the Accord as a cosy deal between government and unions which gave priority to union goals, but Frenkel argues, by the late 1980s they had reluctantly come to accept that the Accord was here to stay for the foreseeable future at least. Nevertheless, they sought to shape the policy framework in accordance with their own interests,4 basing their recommendations on ideas imported into Australian business culture through American management literature and OECD and British NEDO reports.5 While Employer groups were divided over the extent of labour relations reform between conservatives who favoured reform within the existing industrial relations framework and those on the radical right who favoured legally binding individual contracts, they shared a 'bottom line' concern about the inflexibility of wage determination and work practices.6 As early as 1984 the Business Council of Australia (BCA) began to articulate their view of an alternative industrial relations system to that encompassed by the Accord.7 The BCA

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3 Ibid.
5 Iain Campbell (1990), p. 7.
6 Ibid., p. 5.
7 Geoff Allen (1985). Geoff Allen was Executive Director of the Business Council of Australia at this time.
claimed to speak for the collective leadership of Australia's largest businesses when they said that:

Labour market failures are perhaps the single most important obstacle to improved competitiveness and economic performance in Australia. Effective restructuring of the economy cannot take place without restructuring of labour markets - particularly removal of various rigidities and seeking new improved structures.\(^8\)

They define these rigidities as comparative wage justice, which inhibits different rewards for work of different value across business sectors and which inhibits flexible allocation of labour and resources; centralised wage fixing, which creates antagonism in dispute resolution; and the right to strike, which gives too much power to unions. They argued for concession bargaining and a cooperative approach by unions and management to achieve improvements in competitiveness in the face of challenges from the Pacific Rim\(^9\) and for an industrial relations system designed to meet the needs of employees and employers rather than the prevailing system which, they said, appeared to be designed to meet the needs of unions (referred to as 'intermediaries').\(^10\)

Although the BCA professed to base its management theory on a philosophy which "has its roots in the humanitarian concern for human satisfaction in work, as well as the perceived productivity gains from a contented and motivated workforce",\(^11\) the views they espoused were based on Japanesec corporate strategies which had begun to be regarded

\(^8\) Ibid., p. 11.
\(^9\) Ibid., p. 12.
\(^10\) Ibid., p. 16.
as an alternative organisational paradigm in the American literature.\textsuperscript{12} While it is true that those members of the Japanese labour force who are employed by the large corporations enjoy the security of life-time employment, are multi-skilled, are given greater responsibility and required to exercise their innovative potential,\textsuperscript{13} Dohse et al argue that the attractiveness of the Japanese model to western managers is not its humane treatment of workers but its ability to lift the competitive performance of companies. The benefits that may be enjoyed by workers are promoted only to make the changes palatable to western labour markets.\textsuperscript{14} The Japanese automobile industry is used to exemplify competitive organisational structure which has made a successful transition from the Fordist paradigm characterised by repetitious and standardised Taylorist work practices to the post-Fordist paradigm characterised by multiskilling and flexibility. However, studies have shown that work is intensified as a result of these organisational procedures, the aim of which is "to achieve a full 60 minutes of work each hour by each worker".\textsuperscript{15} Dohse et al argue that work practices characteristic of the Japanese automobile industry (which they call 'Toyotism') are

\begin{quote}
not fundamentally different from Fordism in [their] goal but in the way in which the goal is to be achieved. Even Taylor would have had no objection to rationalization suggestions from the employees. By contrast, he made every effort to get the aid of workers in rationalizing production. However, these efforts frequently failed because workers refused to cooperate. "Toyotism" is, therefore not an alternative to Taylorism but rather a solution to its classic
\end{quote}

\begin{thebibliography}{9}
\bibitem{Ibid} Ibid., pp. 120-121.
\bibitem{Ibid} Ibid., pp. 118.
\bibitem{Abernathy} Abernathy, Harbour and Henn, \textit{Productivity and Comparative Cost Advantages'}, p. 38, cited by K. Dohse et al, p. 128.
\end{thebibliography}
problem of the resistance of the workers to placing their knowledge of production in the service of rationalization.\textsuperscript{16}

Naturally enough, the union movement feared an industrial relations system shaped by business. They and their academic sympathisers had been well aware of the exploitative aspects of Japanese-style corporate strategies\textsuperscript{17} and were anxious to shape the new organisational paradigm in accordance with more egalitarian principles. Accordingly, the ACTU/TDC embarked on a survey mission to the 'high consensus' countries of Western Europe to gather evidence of the benefits to be derived from an approach to industrial relations which embraced industry based unions and to add weight to the arguments made in the Accord for developing interventionist industry policies through tripartite mechanisms.\textsuperscript{18} The result of that survey mission was \textit{Australia Reconstructed} which outlines the union movement's own version of a new production paradigm including a central role for unions, and argues for union participation in the development of

\textit{centrally co-ordinated goals and integrated strategies; e.g. for full employment, labour market programs, trade and industry policy, productivity, industrial democracy, social welfare, and taxation policies which promote equity and social cohesion.}\textsuperscript{19}

These are the basic elements of strategic unionism which have been embraced by Austria, Sweden and Norway and which, the report claims,

\begin{itemize}
  \item \textsuperscript{16} K. Dohse \textit{et al}, p. 128.
  \item \textsuperscript{17} See for example Stephen J. Frenkel (1987) p. 105. Also John Mathews (1989b), p. 33.
  \item \textsuperscript{19} ACTU/TDC (1987), p. 169.
\end{itemize}
were responsible for the superior economic performance and social reforms in those countries.20

Unions refute employer claims that high wages are responsible for low investment and low productivity and for inhibiting the expansion and modernisation of Australian industry.21 For the ACTU, real wage growth is a necessary precondition for the stimulation of Australian industry22 and an accord over prices and incomes was simply the foundation stone upon which an integrated, consensus-based approach to the development of an effective economic management strategy could be built.23 Australia Reconstructed found that Sweden, Norway and Austria were managing economic restructuring in a way which placed the responsibility of economic restructuring firmly with employers rather than workers. For example Swedish fiscal policy was used to squeeze the profitability of the least efficient firms to force them to either become efficient or close down, while selective labour market policies were used to assist displaced workers to transfer to new jobs.24

In response to the ACTU/TDC report the BCA quickly organised its own study mission to Sweden to assess first-hand the Swedish experience and subsequently devoted an entire Business Council Bulletin to refuting the findings of Australia Reconstructed mainly on the basis of Sweden's slowing growth resulting from the "rigidities and imbalances that have been imposed on the economy [and which may] continue to act as a brake

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20 Ibid.
22 Ibid., p. 30.
24 Ibid., p. 5.
on its further development".\textsuperscript{25} In 1987 the BCA announced that it favoured an enterprise based industrial relations system, and established a Study Commission to advise it on workplace reform. The Study Commission's first report, \textit{Enterprise Bargaining Units: A Better Way of Working}, acknowledged the new cooperative spirit between unions and employers, and argued for 'jettisoning' the old industrial relations mindset and adopting self-regulating employee relations based on promoting the interests of the firm for the common good. It argues for flexibility in task assignment, orderly dispute settlement, single bargaining units or enterprise unions and the freedom to opt out of the award system.\textsuperscript{26}

Both \textit{Enterprise Bargaining Units: A Better Way of Working} and \textit{Australia Reconstructed} argued for a more consensual approach to the resolution of industry problems but as already argued there was a qualitative difference between the two approaches with the former focusing on processes which reaffirm management prerogative, and the latter favouring reforms which enhance worker participation under union conditions. The ACTU's consensus approach was first articulated in the original Accord as a mutual agreement over a prices and incomes policy\textsuperscript{27} and then in \textit{Australia Reconstructed} as a trade off between commitment by workers to the prosperity of the firm and commitment by business to the prosperity of the nation as a whole. The mechanisms to facilitate this trade off were to be tripartite forums and industrial democracy. Under industrial democracy, management would become more accountable to its workers and workers would get a say in forward planning, but their creative ability

\textsuperscript{26} Industrial Relations Study Commission (1989), Chapter 1. Also F.G. Hilmer and P.A. McLaughlin (1989).
would be animated and harnessed in the interests of the firm. National goals would be agreed in tripartite forums.

This type of broad planning strategy was a first for Australian unionism, which has traditionally been based on the labourist concern with wage earner welfare. Because unionists accepted that the labour market was the primary avenue for distributing wealth they sought to protect the jobs and wages of the employed. Their political wing, the ALP was charged with the task of representing their interests in the political arena and this remained the case until 1983. The rationale for a new role for unions outlined in the Accord and *Australia Reconstructed* can be understood as part of a trend towards a new 'political unionism' which would allow the labour movement itself a permanent voice in the development of economic and industry policy in the interests of sweeping away the antagonistic class relations of capitalism.

Proponents of political unionism argued that global and technological changes made it impossible for unions to do otherwise than pursue this strategy. John Mathews, for example, said that it was "a matter of economic survival" and Laurie Carmichael claimed that "history itself plac[ed] it on our agenda". Mathews elaborated his political unionism in three books, *A Culture of Power*, *Tools of Change* and *Age of Democracy*. Carmichael outlined his views in 'After the Revolution: (Micro) Chips with

30 Terry Flew (1989), pp. 77-78 and p. 84.
31 John Mathews (1988), p. 23. See also Mathews (1989b) and Mathews (1989a) which also make this argument.
Everything'. Since their arguments provided the theoretical justification for union goals they are briefly elaborated.\textsuperscript{33}

**Political Unionism in Australia**

In '(Micro) Chips with Everything', Carmichael argues that new technology has the potential to fundamentally alter the way work is organised. He says:

> The new technology makes possible a different kind of workforce, comprising fewer and fewer human robots, with multi-skilling replacing the infinite division of labour in order to handle efficiently and service real robots and highly automated multi-staged machines, processes and administration. A more highly skilled workforce is required, with a greater sophistication and inter-activeness of functions and work processes.\textsuperscript{34}

He argues that advanced technology is knocking at Australia's door and we can no longer afford to ignore it. New technology demands a workforce skilled enough to participate in decision-making. Australian management may resist this, he says, but the nature of work will demand that 'minute by minute' decisions are made which in turn demands appropriately skilled labour. The late arrival of advanced technology to Australia means we at least have the chance to develop

> a pro-active industrial relations system with an effective national framework and guidelines that promotes intense enterprise initiative around innovation

\textsuperscript{33} Iain Campbell (1990), p. 10. Iain Campbell says that their "ideas played a prominent role in the initial impulse towards award restructuring and continue to exercise an important influence in the subsequent negotiations". Mathews was foundation director of the ACTU/VHTC Occupational Health and Safety Unit and has acted as adviser to the AMWU. *Tools of Change* was a collaborative project with Max Ogden, then National Industrial Democracy Project Officer for the AMWU. Laurie Carmichael was Assistant Secretary of the ACTU from 1987-1991.

in product and process, quality in all forms and reliability of delivery and service all infused with high skills and high value-added content.\textsuperscript{35} 

Mathews argues that the labour movement must seize the initiative to shape the new social order which advanced technology and participation in global markets will bring. To do this effectively it must abandon socialism as an idea that has outlived its time. Its goals are "distant", "unattainable" and "ill-defined", and have done little more than provide the labour movement with an alibi for non-action.\textsuperscript{36} He applauds the post-war Social Democratic compromise between Fordist goals of economic efficiency moderated by Keynesian economic management, and the construction of a welfare state, a combination of objectives which resulted in "unheard of mass prosperity". But the price was that the political agenda was shaped by the "Fordist hegemony" which acted to effectively constrain any intervention in the processes of production. Now that the Fordist compromise has come undone, the labour movement has an opportunity to shape the post-Fordist paradigm, but first it must shed the "statist illusions of the past" and seek a cooperative accommodation with capital.\textsuperscript{37} He believes that the Hawke government's commitment to the Accord and its break with the Social Democratic tradition of the past with its vague long-term goal of socialism were steps in the right direction, as was the ACTU/TDC's \textit{Australia Reconstructed} but, he says, the labour movement lacks a clear long-term vision. He urges unions to base their future strategies on the work of theorists who identify positive benefits for workers in the shift from the Fordist to post-Fordist regimes. He draws upon the work of Kern and Schumann who see benefits for workers in a

\textsuperscript{35} \textit{Ibid.}, p. 28.  
\textsuperscript{37} John Mathews (1989a), pp. xv-xvi.
"reprofessionalised" workforce and in "new production concepts", on the work of Cooley who emphasises "human centred" manufacturing systems, and on the work of Piore and Sabel who identify the need for flexible specialisation and multi-skilling to complement advanced manufacturing systems.38

Mathews' own vision is of an Associative Democracy, based on pluralist notions of power distribution which builds on existing associations of workers and citizens with the aim of democratising the entire social and economic order.39 The role of the state would be to facilitate this process, within Constitutional limits, by further democratising the political domain so that the state could be harnessed in the interests of wider democratic reform.40 He argued that this would only be possible under a Social Democratic or Labor Party and urged the process to begin while the Australian Labor Party retained office.41

Because the shift would be facilitated by democratising the processes which organise our lives,42 for workers this must begin at the workplace. Mathews says that "the paradigm of Associative Democracy suggests that reorganisation of work is not a matter for government regulation, but for direct negotiation between employers and unions".43 Mathews' prescription for achieving democracy at the workplace is most clearly articulated in Tools of Change where he argues that unions must take a protagonist, as opposed to an antagonist approach in negotiating the

40 Ibid., pp. 167-168.
43 Ibid., p. 87.
transition to a post-Fordist workplace characterised by flexible specialisation, skills development and industrial democracy. He says this is important in order to deflect the New Right agenda which seeks to bypass existing unions and implement enterprise bargaining along Japanese lines.44

A closer analysis of these three components of the post-Fordist production paradigm reveals the undertheorised nature of Mathews' claims.

**Flexibility**

The core of the argument for increased labour flexibility is that flexible specialisation in technologically sophisticated product development demands similar flexibility on the part of the workforce. The payoff for management is an adaptable skilled workforce competent in the use of new technologies who can perform a variety of functions, increased productivity, and a competitive system of production which can respond more adequately to market signals.45 For workers the payoff is to be improved skill levels, more responsibility and thus more rewarding work. Yet there is no necessary correlation between labour flexibility and new technology. Mathews' preoccupation with shifting paradigms fudges the main issue which is the underlying dynamic of competitive capital accumulation and the preoccupation of capitalists with the extraction of surplus value.

Drawing on the work of Burawoy and Dohse et al, Bramble and Fieldes argue that new management strategies become fashionable in response to

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44 John Mathews (198b), pp. 2-3 and p. 169.
the failure of existing strategies to elicit the cooperation of labour. New management strategies are simply different combinations of coercion and concessions applied to different causes of declining profitability. As we have already seen, declining profitability at the end of the long boom was not the result of the failure of the Fordist system of production, but of an overaccumulation of capital on a global scale. The argument that the Taylorist management techniques associated with Fordist mass production can be supplanted by flexible specialisation and a harmony of interests between workers and management in the Post-Fordist era therefore rests on erroneous reasoning. Management will utilise whatever strategies necessary to enable the continued extraction of surplus value and will shift from one set of compromises (the trade off between mass production and mass consumption) to another (the trade off between secure employment and intensified work) as the circumstances dictate. Furthermore, neither Taylorism nor flexible specialisation need be linked to particular types of production technology. For example, say Bramble and Fieldes, "numerical control machine tools were used in Norway to develop the initiative of workers, but in the US to enforce greater control of the workforce".

Skills development

Neither does the emphasis on the devolution of decision making to workers mean the surrender of management's right to manage. Hyman argues that that right is retained and "can be applied coercively if self-disciplining fails to yield the required outcomes". Employees may be required to take on an expanded variety of functions but that does not

46 T. Bramble and D. Fieldes (1989, p. 10.
47 Ibid.
necessarily equate with increased skill levels, it may simply mean that workers end up by performing a greater assortment of routine tasks.\textsuperscript{48} Similarly, Campbell claims that the argument for the benefits for workers of skills development rests upon very selective evidence. The arguments usually focus on the benefits which will derive from re-integrating the skill and labour power of each worker (which were separated by Taylorist management techniques), especially the linkage of problem solving or conceptual skills with the labour process usually in the context of quality circles or other types of new work organisation. However, says Campbell, the evidence to support these arguments is usually drawn from "small batch or even customised production such as the machine tool industry" which means that extrapolations cannot easily be made to other industries. This type of selective evidence means that skills development is privileged over other trends which are occurring concomitant with the introduction of new technology and work practices, such as an increasingly casualised labour force, increased use of sub-contractors and increased work loads.\textsuperscript{49}

\textit{Industrial Democracy}

In line with these critiques, Flew argues that the benefits which are perceived to flow from industrial democracy are based on a view which regards organisational forms as the only constraint on worker participation. Class struggle is reduced to a political struggle over which type of organisational form will deliver control of the production process to whom. He says "if the struggle over control is understood in entirely political terms, then it appears obvious that 'unproductive' conflict can be

\textsuperscript{49} Iain Campbell (1990), p. 14.
eliminated by increasing avenues for negotiation to discover common ground". The preoccupation with who has control over the organisation of production means that the importance of who has control over investment disappears, and with it the imperative which drives capital to exploit labour in the pursuit of surplus value.50

The reduction of class conflict to a conflict about ideas is what underpins Mathews' belief that the ALP, as a Social Democratic Party, can and will act as a political agent of the working class to democratise the economy.51 The lack of coherence between analyses of class conflict and the goals of Social Democracy is well understood by those who engage with the former. It is not that class inequality as an issue is ignored by Social Democrats, its elimination after all is their raison d'être, but the goal of a classless society is to be achieved by extending the democratic principle from the political to the economic sphere within capitalism.52 By its very nature the capitalist economy cannot be democratised because capital is structurally dominant. To change the hierarchical relations within the capitalist firm or to change the logic of extracting surplus value would be to transform the social relations of capitalism and the nature of capitalism itself.53 According to Flew, for both social democracy and political unionism

the structural dominance of capital is not seen as an active force, but rather a constraining force upon the ability of labour to pursue its interests. The problem is that the labour movement may be ascendant in the political sphere ... yet its ability to exercise power in the interests of labour is constrained by

51 Ibid., p. 88.
53 Ibid., p. 92.
capital's continued control over the means of production, so that reforms will tend to be partial and contradictory.\(^5^4\)

Mathews takes on his critics to some extent in 'New Production Systems: A response to critics and a re-evaluation'.\(^5^5\) However, he is very selective about who he does take on, refusing to debate with Brambles for example because his position is too far from his own. He says Brambles' critique patently stems from a political position radically opposed to my own. He finds repugnant any suggestion that unions and managements should find common ground at the enterprise level to cooperate in the achievement of greater levels of productivity and efficiency. He is more concerned to keep the two sides apart to better pursue the class struggle. Whether this is indeed a viable strategy for labour is not one I intend to debate.\(^5^6\)

In reply to Campbell's critique that he relied on selective evidence to argue the benefits of skills development in manufacturing industry, he refers to evidence that he had gathered about new trends in the insurance industry and the Australian Taxation Office - both part of the service sector. For further evidence of his scholarship he points to the contradictory tendencies found in female dominated industries such as the clothing industry, where some use of new production systems is apparent in some firms even though the use of increased "rationalisation and surveillance of workers" has been found in firms "involved in defending their market position against low-cost imports".\(^5^7\) Rather than using the latter as evidence of an inevitable response to loss of market share, Mathews claims the appearance of the former is evidence which repudiates Campbell's critique. For Mathews, the emphasis on skills development

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\(^5^5\) John Mathews (1992), pp. 91-128.
\(^5^6\) Ibid., p. 94.
\(^5^7\) Ibid., p. 104.
has nothing to do with any trend toward a dual economy characterised by a core of privileged workers and a growing body of casualised semi-skilled or sub-contract labour. By ignoring the class consequences of pursuing workplace reform through consensus and co-operation he is able to reassert the link between skill formation and strategic unionism and to argue instead that there is a need in the community for plenty of casual and semi-skilled jobs. His decision not to take on the "broader political concerns" of the critiques and to confine his defence to the issue of workplace reform, which he maintains is there for the taking, means Mathews completely misses the major thrust of the critiques.

To further compound the analytical weaknesses of political unionism there has been a marked lack of engagement with the debate about the apparent abrogation of the ALP's traditional commitment to the working class during the 1980s, which naturally calls into question political unionism's confidence in the ALP to act as agents of reform. The debate, encapsulated by the exchange between Johnson, Maddox and Battin, was largely centred around the issue of whether the ALP has its roots in the tradition of Social Democracy which seeks to humanise capitalism or the tradition which seeks to radically transform it. Johnson identified a continuity in Australian Labor governments, since the 1940s at least, with maintaining the health of the capitalist economy as the surest means by which the lives of workers could be improved. She argues that post-war Labor governments never aimed to create a socialist society based on public ownership of the economy. Rather their "policies, developed within a social harmony framework, aimed to create a humanised capitalist
society which would be to the benefit of all, including both wage earners and business. The search for an accommodation between capital and labour was apparent in all post-war labour governments, including the Whitlam government, whose reform agenda was "motivated, not by socialist ideals, but by a desire to make Australian capitalism function more efficiently". The Hawke government carried on this tradition, elaborating the social harmony objective into a politics of consensus which, she argues, made it "the most right-wing development in the history of Labor ideology".

Maddox and Maddox and Battin argue in contrast that socialism has always been the motor which drives the reform program of the ALP. That the Hawke government abandoned that spirit of reform is evidenced by the way it subjugated all of society to the imperatives of economic management. From its formation until Whitlam the Labor Party had been "reformist and democratic socialist", and its vision had been for "an integral, mutually supportive and culturally enriched society". The sacking of Whitlam so shattered the confidence of the party visionaries that political reform has become reduced to "the art of the possible". Consensus politics is both the result of that experience and the cause of the break with tradition. Maddox and Battin criticise Johnson for collapsing into the common motive of accommodating the needs of industry, the Hawke government's financial deregulation and privatisation program and the Chifley government's financial regulation and bank nationalisation program. They argue instead that the Chifley
government's program can be understood as part of an evolutionary progression toward socialism\(^{65}\) whereas Hawke's program "degenerated into 'efficient economic management' as an end in itself".\(^{66}\)

Maddox and Battin seem to have missed Johnson's main argument which was that the ALP had never been socialist in the sense of seeking to radically transform the economy and therefore the Hawke government could be placed firmly within the Labor tradition, and that the government attempted to bypass the constraints which have limited past efforts at reform by moving to the right.\(^{67}\) She argues that by seeking an accommodation with capital Curtin, Chifley and Whitlam all subscribed to consensus politics, and that as far as Hawke was concerned "the real break with Labor tradition would have come if the government had [argued] for substantial controls over private investment".\(^{68}\) The point to be made here in terms of the objectives of political unionism, is not whether the Hawke government broke with tradition in Maddox and Battin's terms, or whether it did not in Johnson's terms, but rather that neither the Hawke nor Keating governments were likely to act as political agents for the implementation of the trade union goal of democratising the economy.

**Business Unionism in Britain**

Political unionism in Australia found a complementarity with British business unionism, which was also seeking to find an accommodation with capital to secure new investment and employment growth. In line

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\(^{66}\) Ibid., p. 190.


\(^{68}\) Ibid., pp. 95-96.
with the critiques of Mathew's hopes for a new democratic workplace, the following is an examination of some British case studies which show how the attempt by unions to align their interests with those of management has worked against labour. Forster and Woolfson examined Caterpillar and Ford and Holloway examined Nissan, and all cases reveal that class divisions were heightened rather than lessened by an optimistic and co-operative union attitude. It is important to note that the context of all case studies was competition from Japanese rivals.

**Caterpillar**

In light of significant loss of market share to its main rival Komatsu, unions at Caterpillar's Uddington plant gave complete support to management for the introduction of new flexible post-Fordist manufacturing systems, and by 1986 they were becoming operational. Later that year, under some pressure from the Scottish Office who wanted to use Caterpillar as a showcase for its industrial policies, the company announced they would invest a further $62 million in the plant. But demands for reduced costs by shareholders in the face of the falling value of the pound meant that maintaining the plant had become untenable and it closed within four months of the introduction of the new manufacturing systems. The potential for the plant to continue operations as spare parts suppliers was significant but Head Office removed all equipment from the plant to ensure there would be no competition from new owners. Despite occupation of the plant for three months by workers who received financial support to the extent of £20,000 per week and the workers' obvious willingness to see the issue through, the factory closed with the agreement of the Amalgamated Engineering Union (AEU). Foster and Woolfson argue that "the AEU leadership appeared to be motivated by a desire not to antagonise the company, and to maintain its image as a
business-friendly union". They say that the brand of 'business unionism' displayed by the AEU showed they were "convinced of the need to co-operate with business at almost any cost".

Ford

In 1981 Ford introduced into their British plants a restructuring program based on post-Fordist management practices including cuts in inventory holdings, the introduction of quality circles with leaders chosen by management and reduced employment levels. Ford's British workers opposed the measures unless the expected increases in productivity were matched by increases in pay to bring them into line with their West German counterparts. Their claims were in turn resisted by Ford who wanted to secure acceptance of the changes through annual wage negotiations. When Ford announced in 1987 that a new plant to supply computerised engine components would be built at Dundee it also announced that a deal had been struck with the AEU for single union representation. The agreement fell outside of the jurisdiction of the organisation which bargained over wages and conditions for Ford's British plants (the Ford National Joint Negotiating Committee) and ultimately led to a TUC inquiry into the deal and a black ban on all components that were to be produced at the Dundee plant. Five months later Ford announced that it would not go ahead with the new plant at Dundee, but would build it in Spain instead. The decision apparently had more to do with fluctuations in the stock market and the value of the pound than with the industrial issues which plagued the project, nonetheless the

70 Ibid., p. 60.
71 Ibid., p. 54.
blame was placed firmly with the union movement by the Scottish Office for depriving the region of new investment and jobs.

AEU's overriding objective had been to secure single union rights in line with the 'business union' approach. Business unionism holds that job growth and union viability are only possible through close collaboration with management to facilitate corporate restructuring and to improve productivity through the introduction of new post-Fordist management techniques. The AEU feared the consequences of non-cooperation would be "deindustrialization and the collapse of any serious base for unionization". Their strategy of winning single union rights meant they had set themselves up to be political scapegoats. The Caterpillar plant closure and the cancellation of the Ford plant at Dundee threatened to undermine the popularity of the government which had highly politicised both issues to give credibility to their industrial policies and their ability to promote economic growth. The AEU had positioned themselves nicely to take the blame. Furthermore the AEU's concern to promote themselves as a reliable and co-operative partner for business weakened trade union cohesion at a time when the introduction of new management techniques were already weakening union bargaining power.

Nissan

The new Nissan factory was built at Sunderland in Britain in 1986 and, says Holloway, it symbolised the resolution of the crisis of the Fordist production paradigm which itself had been symbolised by the decline of British Leyland. By the time the new Nissan factory was built, the core of

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72 Ibid., p. 56.
73 Ibid., p. 60.
74 Ibid., p. 65.
the old paradigm, the mutuality system,\textsuperscript{75} had been destroyed paving the way for the emergence of a new pattern of management/labour relations and a new era of worker productivity (at its peak British Leyland had employed 120,000 workers, Nissan employed 400). Because the Nissan factory was built on a greenfield site in a economically depressed region, management was able to assert control over workers at the level of entry. Says Holloway:

> by ensuring that (sic) only workers with the right attitude are employed, management is able to resolve to a large extent not only the problem of militancy, but also the questions of quality, flexibility and discipline. It now becomes possible to expect the workers to identify with the company to the extent of being concerned about the quality of the product, to demand flexibility in the performance of jobs and to assume the sort of discipline that makes just-in-time production ... possible.\textsuperscript{76}

Holloway admits that not every firm has the advantages of a greenfield site and the Nissan factor has by no means become "universal reality". They do reflect similar movements in other firms, however (as the above examples of Caterpillar and Ford show). Holloway argues that the changes are the result of a long struggle between capital and labour over the way the new industrial climate is to be managed and labour is emerging as the loser.\textsuperscript{77}

These case studies need to be considered in the context of the arguments made in chapters four and seven. In chapter four it was argued that MITI had learned from the experiences of Japanese manufacturing-based MNCs abroad that their presence in a low growth host economy acted as a

\textsuperscript{75} The mutuality system was based on the acceptance by both unions and management that no new technologies or management strategies would be introduced without negotiating trade-offs or compensation with shop stewards.


\textsuperscript{77} \textit{Ibid.}, p. 163.
spur to the emulation of Japanese corporate strategies, and that those corporate strategies embody one of Japan's core constitutive principles - the exclusion of organised labour. Chapter seven argued that MITI understood that the MFP was to be manufacturing based and saw the project as an opportunity to display to Australia the virtues of strong state/weak labour in the process of its establishment and on-going functions. The above analysis shows that management in Australia favoured the adoption of the Japanese approach to workplace relations, and the consensus based approach of both the Labor government and unionists alike neither guaranteed the latter an inclusive role in economic decision making nor equipped them to deflect the threat of those exploitative work practices. The union movement played a very small part in the early MFP processes, and an examination of their involvement reveals how ill-equipped they were to demand a fully fledged participative role in either the development of an industry vision or in the ongoing management of the project.

**Unions and the MFP**

The MFP as a case study of the development of union policy throws open many of the problems that unionism as a whole confronts when it is called upon to formulate a national response. When Secretary of the United Trades and Labor Council of S.A. (UTLC) John Lesses said that a collective response is often limited by the knowledge of individual union officials, who themselves are influenced by a distorted community debate - as was the case with the MFP. When they attempted to respond to the project through the Community Consultation process, unionists were confronted with an image of a “futuristic acropolis elite sort of project”
which, if they were not careful, they felt would go ahead whatever their response, leaving them on the outside looking in.78

At the same time that the union movement was attempting to pull together a unified response to the project, the Amalgamated Metal Workers Union (AMWU) was formulating its response to the Very Fast Train (VFT). The AMWU decided to reject outright the VFT project79 and simply incorporated the MFP into that policy without any "real concerted effort to analyse what the role of the Metalworkers would be".80 The ACTU's response was not much different. ACTU Secretary Bill Kelty apparently considered the MFP to be a "mickey mouse" project, "elitist", and "not the way to go".81 It seems that unionists had no opportunity to participate at all until the Community Consultation phase in 1990-1991. Although the UTLC had been approached by Bruce Guerin and John Mayfield from the Department of Premier and Cabinet in South Australia quite early in the piece to inform them of the proposal82 unions were not included in the development of the concept. Lesses said that the UTLC was "essentially on standby, we weren't asked to do anything specific. It was essentially to touch base with us".83 By 1990 a business response had already been organised and any opportunity for unions to shape the project had been missed. Kelty's lack of interest in the project together with the requirement for an up-front donation of $10,000, may have been the reason they decided not to press for full participation,84 but if this is

79 ibid.
80 ibid.
81 ibid.
82 John Lesses could not remember exactly when, but believed that it was as early as 1987.
84 Despite several attempts to interview their spokesperson on this matter, I was unable to determine whether ACTU had been invited to donate $10,000 or to participate in the development of the project at the time businesses were approached. In any event, they did not participate.
the case then both the ACTU and the AMWU missed an opportunity to be involved in the development of a project of national importance which had the attention of government, business and the public, and the potential to link industry policy to wider social issues at a time when the movement's broader political strategies were failing.

However, when Adelaide was selected as the preferred site it fell to the UTLC to formulate a national union response. They had to find a way to collect the input of their members, all of whom have different and specialised interests. Since they claimed not have the resources to fund a research officer to manage a task of this magnitude, and since the MFP Board was making funds available to community groups so that they could make submissions to the Community Consultation Panel, they asked for funding on the basis that they were "a large stake-holder in the exercise". The funds were approved and they appointed a consultant to inform members about the concept, organise workshops and collect and write up their responses in a way which could form the basis of the ACTU position on the project.85

The community was in a state of outrage over the way the project had been handled up to that time, which of course was why the Community Consultation process was conceived in the first place. Union members were naturally influenced by the prevailing community attitudes and took these to the workshops, so their response was predictably divided. They had difficulty reconciling the class implications of the project - for example the appeal of Japanese work practices to business, the fact that business had shaped the project and that the Japanese were apparently to be

primary investors - with the absence of any identifiable individual investors, with their limited knowledge of the project and how it might come to impact upon their own areas of work. Of course the problem was not simply lack of available information - the project was not clearly defined and no commitment had been made by investors. There was a significant element of dissent among union officials, with some wanting to oppose the project outright. In order to acknowledge the dissenting views the submission eventually took the form of giving conditional agreement for cooperation rather than support provided that "procedures for ongoing consultation with the union movement and with the wider community" were established. It firmly declared that ongoing assessment of the MFP would be made within the context of existing union policies. Their overarching approach, however, fell well within the framework of political unionism as described above and this is apparent in the introduction by Chris White (then Acting Secretary, now Secretary of the UTLC). He says

This submission acknowledges Australia's need to create an appropriate environment for research and development, to attract venture capital and direct foreign investment and to nurture technological growth and industry development. These new patterns of growth cannot, however, be established without the encouragement, support and commitment of a highly trained, competent and flexible workforce. A new interactive workplace culture must be encouraged. New patterns of growth cannot be simply imposed from above, but must be accompanied by new procedures of negotiation and consultation. The MFP as a strategy to rectify problems at the macro-economic level will not be successful unless problems at the micro-economic level are addressed concurrently.

The rest of the submission was structured around the issues that had already been identified with the MFP project such as Research and

Development, Information Technology and Telecommunications, Education, Media and Health. It also addressed Skills Development and Industrial Democracy, Site Development and the Environment and the Social and Economic Infrastructure, all with recommendations based on existing union policies.

Reflecting Mathews' concept of Associative Democracy, Lesses later said of the submission that although he had tried to ensure that the union movement did have a presence:

I believe that the role of unions in Australia has to change and has to be much more community based and reflect the community. We have a community in South Australia of 300 000 union members but we also must not be that separate from the [broader] community. We are a community within the broader community and that's what we should be seeking to influence and ensure their input.

The submission was dated January 1991 and was accepted by the UTLC Executive on 26 September 1991. Minutes of that meeting say that "Comrade J. Lesses Moved ... that the United Trades and Labor Council ... Endorses the UTLC MFP-Adelaide Submission's recommendations as the outcomes to be pursued by affiliates". It was then accepted by Council the following day.

When nominations were called for the MFP Board the UTLC indicated their desire for unions to be represented in accordance with the submission which demanded such involvement as a condition of continuing support. MFP-Adelaide asked them to submit three names for consideration. John Lesses considered that because the project was a national one, the union representative should be "an ACTU officer at Assistant Secretary or above" but that as Secretary of the UTLC he would
"be happy to come in as a deputy" presumably because of his close proximity. At the very least he believed that no-one of less status should represent unions on the Board. Subsequently, and in accordance with union policy to determine who their representative should be, he submitted only his own name. The MFP management declined to accept the nomination and as a result the union movement had no representative on the Board. Asked why he did not threaten to withdraw union support in line with the union submission to the Community Consultation Panel, Lesses indicated their reluctance to marginalise themselves altogether. He said:

We take a position and say these are the outcomes we would like, but once having done that and it hasn't worked, then where do we go? We are saying that we are still there, however, and these are our conditions. We want a representative that hasn't been accepted, and what has happened since then is that we haven't given them any further support and there hasn't been any input. They've said, well we want you on our advisory committee, but we say well this is the condition, which again they haven't accepted. Well we haven't knuckled down. I've had the Premier write to me and I've said, sorry this is our position.

Asked why they did not threaten to mobilise opposition to the project at a time when government was anxious to nurture community support, he said:

They may say, well if you don't want participation that's fair enough, we will now start doing these things and if the conditions are not acceptable we will go ahead and do it without you and in terms of union organisation on the job we'll have non-union workers so we don't have to worry about you.87

Lesses' overriding concern was clearly to preserve 'harmonious' relations with the government and to avoid any action that might deter international capital from investing in the MFP. He was consequently reduced to taking a stand over an issue that simply confirmed the irrelevance of unions to the process. As already pointed out, however, a major problem for unions was that they were never actively informed about the project and their presence was not encouraged, while the participation of business was actively sought.

**Conclusion**

The agenda John Mathews maps out for the union movement in Australia rests upon a close and ongoing relationship between the ALP and the union movement to facilitate the full democratisation of society and the economy. However the Hawke and Keating governments continually backed business' agenda, beginning with wage restraint and ending with productivity based enterprise bargaining. Most of the governments' other key policy initiatives also worked against the objectives of political unionism. For example financial deregulation, a smaller public sector, privatisation and targeted welfare provision all limit the government's ability to harness political power in the interests of democracy. The government's primary strategy was rather to integrate Australia into global markets and labour market reforms have been designed mainly to achieve that end.

That the MFP did not become a carriage for the wholesale introduction of Japanese corporate strategies therefore had nothing to do with government's commitment to union goals of worker participation and industrial democracy. The marginalisation of unions from the development phase of a project of national importance reflected a more
accurate state of play between the political and union wings of the labour movement after more than a decade of consensus politics.
In the mid 1980s when Japanese economic growth was at its peak, the country came under international pressure to take some political responsibility in regional affairs, commensurate with its economic wealth, but in terms framed to complement the principles which underpinned the interests of American capital. This was a time when those principles were in a state of flux with economic growth stalled and the post-war embedded liberalism compromise in disrepute. The Japanese state had never really conformed to this model anyway. It had never been demand-led and despite its apparent liberal democratic institutional framework, Japan had developed a unique form of capitalism based on a strong state characterised by its close association with business, and the exclusion of labour from policy making. When Japan was called upon to take a global leadership role, its lack of fit with a world order moving towards an even weaker role for the state became a problem which the country had to manage. Led by MITI, the Japanese state responded by attempting to universalise its own constitutive principles rather than undermine its unique pattern of growth. The MFP was an attempt to teach Australia and other international participants in the project, the virtues of strong state and weak labour.

The Australian response to both its economic problems and the MFP was influenced by arguments which condemned the post-war experiment with Keynesian interventionism as a failed interruption to the longer term liberal commitment to small state and free markets. The new emphasis on supply rather than demand coincided with the challenge from the fast growing Asia Pacific economies modelled on Japanese state and corporate
strategies, and a growing awareness of the need for a new approach to production. Together these factors paved the way for acceptance of business' preferred model of productivity based enterprise bargaining. This model of wage determination appeals to business because it promises improved productivity while allowing them to couch their arguments for weakening the union movement in terms of promoting a more cooperative working relationship between managers and workers. Unlike their Japanese counterparts, Australian business tends to see low productivity solely as a worker problem and they have concentrated their efforts on boosting worker productivity by eliminating 'rigidities' from the wages structure. They tend therefore to overlook those other aspects of Japanese corporate strategy - more dynamic management techniques and a commitment to expansion through new investment.

In this period of transition, Australian unions were also seeking a more cooperative work environment, favouring flexibility in working arrangements and workplace democracy, and had aligned themselves with the consensus approach of the Labor Government. Their abandonment of class analysis, however, meant throwing out the concept of structural inequality which characterises the workplace under the capitalist mode of production, leaving workers vulnerable to more, not less exploitation, and unions vulnerable to marginalisation. In the case of the MFP, the UTLC's choice to cooperate came to mean cooperation in their exclusion from a phase of the project at a time when it had the attention of the public, and when they could have mobilised public opposition if they were not given a central role. The broader implications of cooperation as a strategy, however, are that unions may come to participate in their total exclusion from policy making without any of the benefits Japanese workers derive from their strong state which concerns itself with long term economic
growth. This possibility is evidenced by their agreement to union negotiated enterprise bargaining agreements under the Hawke and Keating Labor governments despite the latter reneging on promises to control investment. Moreover, this form of enterprise bargaining paved the way for the Howard Coalition government to implement Workplace Agreements which require no union involvement at all. The Howard government has also dismantled tripartite bodies such as the Australian Manufacturing Council which had facilitated union input into the policy process.

Australia continues to closely align its policies with the prescriptions of the United States and its international advocates, the IMF and the World Bank, which stress balanced budgets, low inflation and small government. Using Australia and English case studies, outlined in chapter 8, it appears that in the battle to formulate a set of constitutive principles to underpin world trade into the next century, the United States' model of weak state and the exclusion of labour seems poised for victory. After all Japan's growth strategy has finally pushed the country into recession. From this perspective, and in the context of these pressures, Japan must now put in place appropriate reforms to liberalise its economy so that it conforms to the needs of the global market. Failure to do so may drag the entire Asia Pacific region, including the United States, with it. So why does it resist? The answer requires some digression into the causes of the recession.

Despite the fact that Japan is officially in recession for the first time in 23 years, it remains the world's largest creditor nation, running huge current account and trade surpluses. In spite of this, says Mikuni, the country manages "its economy as if it were a developing nation just climbing out of
poverty. He argues that Japan should be running current account deficits that would allow it to increase its import capacity and become the engine of growth for the global economy. In 1995 Japan attempted to export its way out of its economic problems, but the strategy failed to stimulate capital outlays, because its productive capacity already far exceeded its internal demand. If it had succeeded it would only have resulted in an increased trade surplus.

The United States is unable to continue to absorb exports from the Asian region because to do so would simply add ballooning external deficits to its existing position as a huge debtor nation. If this were to occur it would weaken the dollar and foreign currency markets would then force a reduction in external deficits. The dollar is likely to weaken anyway, forcing a reduction in existing external deficits, otherwise the nation faces rising interest rates and recession. Of crucial importance is the fact that the strength of the American dollar is underpinned by the Japanese banking system, which is groaning under the weight of 120 trillion yen in bad or doubtful debts which in turn is weakening the Japanese currency, forcing both the Japanese and American governments to support the yen with multi-billion dollar rescue packages. Japan is under great pressure therefore to reform its financial sector, to rid it of the anomalies that allowed the problem to occur in the first place.

The anomalies in Japan's financial system were revealed when property and share prices collapsed in 1990 after a decade of bank over-lending. The system rests upon a high savings rate encouraged by a tax structure which taxes interest income separately from ordinary income. Interest is taxed at 20% compared with the top marginal tax rate of 65%. Japanese

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companies in strategic industries had access to these funds through banks at effectively tax exempt rates, which gave them a competitive advantage over foreign rivals. Mikuni says that "both the savings themselves and the productive capacity they financed were protected from the risk of failure by every tool the government could command. Any failures were spread throughout the economy, rather than falling on the shoulders of individual savers, banks, or companies". Mikuni calls this the "socialization of risk".2

When the United States became a debtor nation rather than a creditor, Japan could no longer export to America without driving down the yen/dollar exchange rate. Productive capacity in Japan stalled and banks, with an excess of savings, began to lend to less secure borrowers. Banks in Japan can operate with zero equity which means that bad loans cannot be written off without bringing down the bank too. Moreover there is no requirement for banks to evaluate credit risk, and the 'socialisation of risk' indicates that the Ministry of Finance is more committed to supporting banks than investors.

Attempts to force change on Japan raises some conflicts of interest for the United States which is only able to run huge external deficits because of low cost Japanese finance. It keeps "inflation low and American financial markets buoyant". Any increase in the cost of Japanese money is likely to lead to rising prices and a contraction of the American economy. Mikuni says this is "the unacknowledged American stake in the present system".3

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Despite this, the Asian currency crisis is worsened by the problems which beset Japan's financial sector, because its institutions are cutting credit to the region, further contracting prospects for growth. Because America's stake in maintaining the existing system is unacknowledged it can continue to dictate change in accordance with its own principles without reproach. The Asian currency crisis is taken as evidence of the unravelling of the East Asian economic miracle, proof of both the misguided nature of state guided development and of the need to bend to the will of the market. Weiss argues, however, that "state involvement is not the same thing as a state's transformative capacity". The institutional structure of South East Asia which is at the epicentre of the crisis, has nowhere near the same degree of experience and commitment among its career bureaucrats as that which exists in North East Asia. For example, she says

One important consequence--evident as much in Thailand and Indonesia as in Malaysia--has been the absence of investment coordination to ensure that resources are directed to more productive ends. A substantial proportion of domestic and foreign finance has been allocated to speculative projects (especially to property development and showcase projects) rather than to industrial production. In Thailand in the 1990s, for example, the availability of easy finance coupled with the virtual absence of investment guidelines contrasts dramatically with the highly coordinated investment strategies put in place earlier by the Taiwanese, Koreans and Japanese at a similar stage of development. Whereas the state-guided strategies of the Northeast Asian states generated high levels of investment in high growth industries, Thailand's uncoordinated approach, coupled with the availability of easy money, encouraged intense speculative activity, leading to a frenzy of over investment in the property sector and ultimately contributing to the currency crisis of 1997.

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5 Ibid., p. 2.
Weiss goes on to argue that rather than being evidence of "strong states at the mercy of global markets", the problems being experienced in South East Asia can be better understood as evidence of weak states leaving their countries vulnerable to global speculators.6

Terry agrees that the region has suffered badly. She says the crisis came at the end of a decade of intense building of the region by Japan as an export base for its heavy industries. Japanese corporations established affiliates or subsidiaries in the region and between 1996 and 1997 investment reached 1.5 trillion yen (about $US14 billion).7 By 1997 there were 10,995 Japanese-owned companies in residence.8 Despite the crippling effects of the crisis on domestic oriented producers, exporters have benefited from the low exchange rates and even the fall in the value of the yen has encouraged more offshore investment.9 Terry argues that studies by MITI show profitability rates through the 1990s in Japan's Asian subsidiaries were far higher than in any other region, showing 4.1 per cent profit ratio in Asia compared to 2 per cent for North America and 1.3 for Europe.10 In overall terms the crisis for Japanese corporations represented a temporary interruption to their longer term growth objectives, with manufactures for export already resumed, albeit at a reduced rate. Toyota's General Manager of its Asia Division is quoted as saying "We are in a survival mode ... We are supported by our parent company in Japan. Likewise we will support our subcontractors in Asia". Similarly, MMC's corporate manager says "We are concentrating now on how to survive for two or three years ...Japanese companies don't quit".11

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6 Ibid.
8 Ibid., p. 5.
9 Ibid., p. 1.
10 Ibid., p. 2.
Terry argues that the Japanese government's response to the crisis was typically "policy-based". They channelled $US21 billion in short term trade finance into the region, almost ten times that provided by the U.S.\textsuperscript{12}

Terry attributes this policy response to MITI which, she says, "views Japanese companies as the catalyst to industrialization on a regional scale".\textsuperscript{13} To this end they have provided both technical training for Southeast Asian workers and plans to strengthen their economies through "production linkages". MITI's Takato Ojimi said that support is given to Japanese affiliates on the understanding that they must contribute to the economic recovery of the region.\textsuperscript{14}

What does this mean for Australia? Apart from the obviously good prospects for continued growth in a region upon which Australia heavily relies, it does give us a glimmer of an understanding of what the country may have missed. Terry says of Japanese companies, that in Asia, and

\begin{quote}
with government cooperation [they] virtually replicate the familiar keiretsu business structures of the domestic market. The pattern of trade that emerged between 1985 and 1995 was one in which Japanese companies created a vast, largely closed production loop across Asia, with Japanese intra-company trade as its predominant motif.\textsuperscript{15}
\end{quote}

While Japanese companies are clearly the greatest beneficiaries of this, the huge levels of investment, the technology transfer, the training, the increases in economic growth and in the levels of employment indicate that the recipient nations too are establishing a sound economic base for the future.

\textsuperscript{12} Ibid., p. 3.
\textsuperscript{13} Ibid., p. 4.
\textsuperscript{14} Ibid., p. 5.
\textsuperscript{15} Ibid., p. 6.
It is possible that Australia may have benefited greatly from collaboration with Japan had it reacted differently to their offer.

And Japan's future policy orientation? The country clearly has too much lose by transforming its core constitutive principles to align with those of the west. Sheldon Garon's recent publication *Molding Japanese Minds: The State in Everyday Life* quotes a senior government official as saying

I'm not a nationalist in the narrow sense of the word, but too much deregulation would create great confusion ... it's naked market forces against cultures. It would be the end of Japanese-style capitalism if we pushed this change too far. Japan would be split, as America is split. 16

Australia still suffers a crisis in its terms of trade, and like the countries of South East Asia, its crisis is ultimately an investment crisis with too little bureaucratic expertise in guiding investment decisions. Despite all its domestic economic problems, Japan is the only Pacific Rim nation with real fundamentals in place, a strong industry base and a strong commitment to regional growth as the means to ensuring its own economic future.

As far as the MFP is concerned, Australia learned nothing about the alternatives to economic rationalism which were offered by involvement with the Japanese in the MFP. Any future commitment to a more focused or interventionist industry policy is unlikely to fill the vacuum left by the virtual demise of manufacturing and the strategic place it should have had in creating industry linkages in this country. And perhaps even more

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unfortunately, never again will the same forces combine which led to the opportunity that Japan offered Australia in 1987.
January 1987  

February 1987  
A mission survey of the Australian investment climate is conducted by MITI, led by Minister Amaya.

May 1987  

September 1987  
MITI produces *A Multifunction Polis Scheme for the 21st Century: Basic Concept*, a pre-feasibility study.

November 1987  
States' representatives meet in Canberra to discuss their reactions to the MFP concept and to develop a coordinated Commonwealth/State position.

December 1987  
Commonwealth/State Meeting on the Multifunction Polis endorses feasibility study.

Late 1987  
Nine principles to guide the feasibility study are written by Neville Stevens, Deputy Secretary of DITAC.

January 1988  
Joint Secretariat and Joint Steering Committee are established. Australia announces a Joint Feasibility Study of the MFP.

February-May 1988  
Australia's Department of Industry Technology and Commerce (DITAC) and MITI together develop and negotiate the terms of the feasibility study.

April 1988  
Senator John Button writes to Australian businesses pointing out the benefits of becoming involved in the MFP feasibility process.
Apr 1988 The Australian government asks Professor David Yencken to examine the social implications of the MFP.

May 1988 Formation of the Japan Domestic Committee, comprising 83 companies.

Jun 1988 DITAC produces *The Multifunction Polis Proposal: One Australia Perspective*, the purpose of which was to help Australian business understand what the MFP was about and to identify some possible areas of commercial interest. The Nine Principles appear for the first time in this document.

Jul 1988 MFP Foundation (later MFP Australia Research Ltd. (MFPAR)) is established, headed by Mr. Clem Doherty of McKinsey & Co., and sets up 18 industry think tanks. The Australian members of the Joint Steering Committee are appointed, headed by Mr. Denis Gastin.

Nov 1988 American firm Arthur Andersen and Australian firm Kinhill Engineers are appointed as Consultants to carry out the Feasibility Study.

Mar 1989 Andersen-Kinhill produces a *Pilot Concept Paper* which is badly received. Concern is expressed about their fitness as Consultants.


Jun 1989 Kinhill produces *Spacial Attributes Paper* recommending that the MFP be built adjacent to a metropolitan area.

Jul 1989 Sixteen criteria produced to guide site selection.

Aug 1989 MFPAR produces *MFP Hypothesis*.

Aug-Sep 1989 State proposals received and site ranking occurs.

Sep 1989 Andersen-Kinhill produce *A Concept to Create the Future*, for international test marketing and a *Preliminary Site Ranking Report*.

Oct 1989 *Investor Response Report* released which was the result of international test marketing.
Nov 1989  Trevor Berthold takes over as Chief Executive of MFPAR. Andersen Consulting produce Project Development Report.

Dec 1989  McKinsey & Co. produce a Commercial Viability Analysis, prepared for DITAC.

Andersen-Kinhill produce Consultancy Final Report. Joint Steering Committee announces that the feasibility study will be extended until June 1990 to accommodate a second round of state siting proposals.

Mar 1990  MFP Joint Secretariat produces a Working Document for the Australian and Japanese Domestic Committees which says that the project will not proceed until a site is selected.

May 1990  Final state proposals submitted by New South Wales, Victoria, South Australia and Queensland. South Australia’s proposal is called Adelaide: A submission to the MFP Joint Secretariat by the South Australian Government.

Jun 1990  Gold Coast selected as preferred site but dispute over conditions governing land acquisition sees Adelaide, as second preferred site, named as winner.

Jul 1990  Release of Multifunction Polis Feasibility Study: Report by the Joint Steering Committee to the Australian and Japanese Governments. The Report endorses the Adelaide location. The National Planning Authority produces MFP: An Urban Development Concept which suggested that the MFP should embody higher than normal densities and a balanced distribution of living, working and leisure.

Aug 1990  An MFP Adelaide Management Board and an International Advisory Board are established and the Commonwealth and South Australian governments agree to a joint program of community consultation. A three member MFP-Adelaide Community Consultation Panel is announced. The first stage of the community consultation process begins.

Dec 1990  Membership of MFP International Advisory Board is announced, the role of which is to guide the overall development as an international project. The first stage of the community consultation process is completed.
MFP Adelaide Management Board Status Report and the Community Consultation Panel's Progress Report are released. The second stage of the community consultation process begins.

Feb 1991

MFP-Adelaide Media and Entertainment Core: Multi-Purpose Facility for Film and Video Production and Television Broadcasting, Pre-feasibility Study prepared by Phil Hudson Steidl Smith & Associates.

Mar 1991


Apr 1991


May 1991

MFP-Adelaide Design Concept Development and Core site Assessment. Final Report of the Adelaide Management Board to the Commonwealth and State Governments reaffirming the broad vision of the MFP as an international centre of innovation and excellence in urban development and advanced technology.


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<th>Date</th>
<th>Event</th>
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<tr>
<td>Jul 1991</td>
<td>Federal Government formally approves the Adelaide project and provides an initial allocation of $12 million.</td>
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<td>Oct 1991</td>
<td>MFP Adelaide renamed MFP Australia and new MFP logo is released.</td>
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<td>Nov 1991</td>
<td>Bruce Guerin, former head of Premier's Department is appointed acting Chief Executive, MFP Steering Group with Ross Adler as Chairman. BHP announces its intention to invest in the MFP.</td>
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<td>Dec 1991</td>
<td>A delegation of businessmen from 15 major Japanese firms visit Adelaide to examine possible involvement in the MFP. Delegation leader Toshikuni Yahiro of Mitsui says their major purpose is to find out what incentives are available.</td>
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<td>Feb 1992</td>
<td>PPK Consultants release <em>MFP Australia: Gillman/Dry Creek urban development proposal draft environmental impact statement</em>.</td>
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<td>Mar 1992</td>
<td>The Federal Labor Government commits a further $40 million to the project through its Building Better Cities Program.</td>
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<td>Apr 1992</td>
<td>Legislation passed by the South Australian Parliament providing for the establishment of the MFP Development Corporation to manage the project.</td>
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<td>Aug 1992</td>
<td>Arthur D. Little produces <em>New Directions for South Australia's Economy: Final report of the Economic Development Strategy Study</em> which expresses concern about the emphasis given to the MFP as an experimental site.</td>
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<td>Oct 1992</td>
<td>The Board of Directors for the MFP Development Corporation (MFPDC) is announced, headed by Mr. Alex Morokoff.</td>
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<td>Feb 1993</td>
<td>South Australian government launches a national housing design competition to give impetus to the MFP development at Gillman.</td>
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Jun 1993  Mr. Ross Kennan appointed Chief Executive Officer of MFP-Australia

Dec 1993  Liberal Government, led by Dean Brown, elected in South Australia which heralds the shift of the core site from Gillman to The Levels.

Feb 1994  A joint statement by South Australian and Commonwealth governments announces the building at Technology Park of an advanced residential and industrial showcase of environmental standards.

May 1994  Expressions of interest sought for the first stage MFP urban development.

Jun 1994  MFP Australia launches a worldwide search for a partner to help finance and develop the MFP at The Levels.

Jul 1994  The Federal Labor Government announces a two year funding deal to inject $29 million from its Better Cities program.

Sep 1994  Dr. Robert Webber appointed as Chief Executive of the Australia Asia-Pacific Business Consortium (a subsidiary of the MFP).

Oct 1994  MFP Australia begins negotiations with Delfin Lend Lease Consortium to develop a design concept for the first stage urban development at The Levels.

Feb 1995  A report into MFP finances by the Parliamentary Economic and Finance Committee criticises the MFP Development Corporation for excessive spending.

May 1995  Sir Llew Edwards takes over the role as MFP-Australia Chairman.

Jun 1995  Premier Olsen announces a $5.5 million funding boost for the MFP.

Dec 1995  172ha Barker Inlet Wetlands at Dry Creek is opened as part of the environmental remedial works of the MFP core site.

May 1996  Bureau of Industry Economics Evaluation of Commonwealth Support for MFP Australia report released, providing justification for the phasing out of federal funding on the
basis that it had become a state-based regional and urban development project.

June 1996  Dr. Laurie Hammond appointed as new Chief Executive Officer of the MFP.

Aug 1996  The South Australian government approves stage one of a 4000 home 'smart city' development at The Levels.

Oct 1996  Premier Dean Brown commits $25 million for infrastructure development for 'smart city' project. The South Australian government sacks half of the MFP Board as part of moves to reduce the costs of the project.

Nov 1996  The South Australian Government, now led by Premier Olsen, approves the first stage of development at a 620 hectare site at The Levels.

Late 1996  MFPDC responsibilities extended to absorb the state's Urban Projects Authority and Information Industries Development. Premier Olsen announces that the MFP site at The Levels will be renamed Mawson Lakes.

May 1997  Dr. Webber, Chief Executive of the Australia Asia-Pacific Business Consortium leaves Australia amid a furore about his excessive salary package.

Jul 1997  Ceremonial commencement of work at Mawson Lakes at which Premier Olsen announces his intention to scrap the MFP.

Aug 1997  Premier Olsen announces that the MFP is to be replaced by a state development corporation and that the name MFP would cease to exist.
The questions asked of interviewees differed according to whether they were politicians, bureaucrats or industry representatives. The questions asked of each group also differed according to the answers received and according to my growing understanding of the issues that were of concern to each group. The following is representative of the core questions put to each business spokesperson. Other questions precede responses. All responses are given in summary form.

**Questions put to industry representatives who had been involved in the early stages of development of the MFP concept:**
- How did your company hear about the project?
- Why did your company decide to pay the $10,000 fee for participation?
- What was your company's involvement?
- Do you believe that the think tank process was successful?
- Do you think the project will change the way business is done in Australia?
- Why do you think the Japanese proposed this concept to Australia?
- Could Australia do what needs to be done without the involvement of the Japanese?

**Ms. Lisa Corbin, Corporate Manager, Planning and Communications, AWA Pty.Ltd., 27 September 1989 in Melbourne.**

AWA was approached by DITAC. They believed they were asked to participate because of their Chief Executive Officer's (Peter Crawford) reputation as a planner and conceptual thinker. AWA recognised the
importance of the project in terms of its potential. Ms. Corbin expressed personal disappointment in the process of getting industry involved. The private sector was clearly expected to play a pivotal role in organising the project but their diversity and lack of appropriate infrastructure made that difficult, as did the fact that government was controlling the agenda. AWA paid the money because they didn’t know what would happen if they didn’t, rather than seeing it as seed money. AWA had an early involvement in the aerospace and defense think tank but that involvement ceased when that think tank evolved with a different focus. She believes that despite the difficulties associated with the process it proved to industry that it can organise itself in order to capitalise on opportunities without relying on government to do it. The involvement of Japan acted as a spur to Australian industry to define its own objectives, for fear they would otherwise be defined by the Japanese.

**Mr. Peter Crawford, Head, Department of Premier and Cabinet (formerly Chief Executive of AWA) Thursday 14 January 1993 in Adelaide.**

Mr. Crawford said that he felt strongly that the project offered promise but the idea of it being all things to all men weakened that promise. Each new group of people who discovered the MFP, redefined it. He said he was a reluctant chairman of one of the think tanks, because he felt they were “somewhat ephemeral and futuristic” as opposed to being driven by and recognising real capabilities and opportunities. DITAC had a tendency to run these sorts of processes but they were surrogates for real policy. He was skeptical about the project from the start and believes he was right to be. The early documents gave very little definition of the project and the first real effort to do so was the South Australian submission. He believes the Japanese were more concerned about property development than anything else. About AWA’s involvement he said he believed that “it would have been churlish not to be involved” given the opportunities that may have come from the project.
Mr. Richard Johns, Director of Corporate Planning, Nissan, Tuesday 26 September 1989 at Dandendong, Vic.

Nissan’s involvement was sought on the basis of what the project offered to Australia generally and to companies such as themselves specifically. Nissan paid the money as a contribution toward the feasibility study. Their involvement was minimal because they did not see any direct opportunity for involvement. They had asked their parent company to consider placing any projected design, engineering or research function in the MFP rather than in any other offshore location, but found it difficult to go beyond that. Mr. Johns did not see how the project could change the way Australia did business while it remained an abstract concept.

Mr. Peter Morgan, Telecom, Friday 29 September 1989 in Melbourne.

Mr. Morgan said that Telecom had put a great deal of money, time and effort into the early stages of the project and their involvement was based on the recognition of the need to call upon the country’s available expertise. They saw the need to develop an Australian position to complement that of the Japanese. Mr. Morgan expressed disillusionment with the running of the development phase, which was impeded by competing views about what should happen. It was also impeded by the problem of not knowing what the project was meant to be, or what the communications industry would look like 30 years ahead, which was the projected time frame for concept planning.

Mr. John Grant, First MIC, Friday 29 September 1989 in Melbourne.

First MIC was willing to participate in the project to the extent of paying the $10,000, which they understood to be for the feasibility study. Because the MFP was a concept based around new industries, new technologies and new ways of doing things, they saw it fitting in with their own agenda and supported the ideas to the extent that they understood it. Mr. Grant believed
other industries were very skeptical about the project but that First MIC was more optimistic because they were more used to dealing with longer term time frames. He did, however, believe that the MFP could act as a catalyst to restructure the Australian economy, citing Lend Lease as an example of a company that can move from construction to development to financial services. Mr. Grant saw the MFP as providing the impetus for other companies to move away from traditional domestic roles.

Mr. Peter Knight, BHP Australia, Friday 29 September 1989, Melbourne. BHP saw their contribution of time and money as a donation, paid in response to government pressure. Mr. Knight believed that the think tanks were a good idea but were undermined by a debate about what form the MFP should take. Industry representatives were divided about whether the MFP should be a city or not. They were also divided about whether Australia needed the involvement of the Japanese or not. Mr. Knight felt that it would be a missed opportunity to bow to Japan's preference for a single city site without eliciting a substantial investment commitment from them.

Mr. Stuart Fysh, Corporate Manager, MFP Development, BHP, 28 September 1992 in Melbourne. BHP receives a great many approaches to look at worthy initiatives but the enormous size of the company means that it would probably not get excited about plans to build a city in Australia or about ideas to strengthen relations with the Japanese. BHP already has a very understanding relationship with them. Many of the things the MFP can offer Australia, it can't offer BHP. BHP would, however, support it where possible. Their commitment was framed very much by the interests of their investors. The Company had spent a considerable amount of money and time looking for ways to invest in the MFP, but the core concepts - environment, education and information technology - were only peripherally coincident with BHP's interests.
Mr. David Wilson, Manager Government Liaisons, ANZ, Wednesday 27 September 1989 in Canberra.

ANZ's involvement in the project was been greater than that of some other companies because their Chief Executive, Mr. Will Bailey, was asked by the Minister to head the Australian side of the Joint Steering Committee and because it provided people and resources to assist with various parts of the project. ANZ saw it as a national interest issue. In their view, the think tank process was successful, providing direction for the feasibility study. Its greatest attribute was to enable government and the private sector to critically examine the country's future. He felt that the involvement of the Japanese was important to attract investors and believed that Japan's motive for suggesting the project was based on that country's need to internationalise its economy.

Mr. Eric Muir, General Manager, Corporate Relations, CRA Ltd., Friday 29 September 1989 in Melbourne.

(It was difficult to pin Mr. Muir down to a set of specific questions. He was disturbed about the marketing document which he had just received and wanted to discuss it.)

Mr. Muir felt that it was a disaster to attempt to market a concept without knowing what it was. He expressed astonishment that so much money had gone in to bringing the project to this point and believed that anyone could have sat down and written the marketing document. He had been pleased with the think tank process which had aimed to bring together the best people in each industry but felt that the core industries identified in the document for development in the MFP were nonsense. He said it would not be several core industries that would sustain Australian development but one or two. Australia should concentrate on building on its advantages such as raw materials. He did not understand why the Japanese would want to invest in high technology industries in Australia and did not believe that they would.
Mr. Peter Brain, Executive Director, National Institute of Economic and Industry Research. 29 September 1989 in Melbourne.

Mr. Brain did not believe that anyone understood the MFP project. He said it would be what people made of it. The Japanese and Australians each had their own ideas and it was a question of each getting what they wanted. He believed that Australia was irrelevant as far as national networks go and that it was important to infiltrate the networks that are available. If Australia wanted to get into high technology that was what it had to do. Because Australia is an out of the way place, government may see the MFP as a way of attracting people here.


- What was McKinsey’s role in the MFP project?
- What do you see as being the role of the Australian government?
- How did McKinsey go about motivating industry?
- Do you think they have been successful in this?
- How do you respond to claims that the marketing package does not reflect industry views?
- What has been government’s reaction to what McKinsey has done?
- Was industry able to think 30 years ahead?
- Were they willing to cooperate?
- Were they concerned about sharing ideas?
- What was the vision that came out of the MFP process?
- Is the involvement of the Japanese important to the success of this project?

Mr. Rennie spoke mainly of Mr. Clem Doherty’s role in the project. Mr. Doherty had been approached by Senator Button and Mr. Will Bailey to
assist the Australian business community in developing a vision for the MFP feasibility study. This required motivating them to become involved because the project had to be privately driven if it was to work. Mr. Rennie saw the key issue as creating an environment so that collaboration could occur. He and Mr. Doherty lobbied their own business network and were able to get most of them involved in the think tanks. He felt they were successful in developing an 'optimal' Australian vision which was accepted by the feasibility study and which became the basis of the MFP. This vision was of a dispersed MFP linked by new information technology. Industry was able to think ahead 30 years and willing to cooperate despite worries about intellectual property. He believed that DITAC and Senator Button were 'excited' about what they had achieved. The Japanese presence in the project was only necessary to the extent that it provided a catalyst for getting industry to think about Australia.

Mr. Clem Doherty, McKinsey & Co. and Chief Executive of MFPAR, 7 February 1994 by telephone.

- There is evidence to suggest that the Japanese thought the MFP would be manufacturing based. What happened to manufacturing?
- Were you aware that an ASTEC enquiry into manufacturing was being carried out at the same time the think tanks were meeting?
- Was there good coordination of information between the ASTEC and MFP processes?
- Would you comment on the dispute over whether the project should be ideas led or city led?
- There seems to be some contradiction between claims that Japan and Australia should work together in the interests of the region on the one hand and their insistence on a single city site if Australia didn't want one, on the other. Would you comment?
• To what extent did the think tank process contribute to ongoing collaboration between businesses in Australia?
• Do you think that government handled the MFP well?

The think tanks were set up as vertical industry streams and he saw manufacturing as being one element in each of the think tanks. The MFP was not therefore service based. Services came to get greater attention because, across the total economy, it was the area where there was the greatest potential source of competitive advantage. ASTEC was not affiliated with the MFP but with DITAC but there were representatives of both groups involved in the process at various stages. Mr. Doherty said he did not believe that MITI thought the MFP was to be manufacturing based. The lack of site specific subsidies meant that a city concept was not achievable and therefore Australia had to take opportunities where they lay. Japan came to understand this when they realised the Australian government was not going to put up any money for a city. He did not believe that Japan's relations with Australia was high on its list of commercial opportunities. The complementarity arguments were valid in his view, but complementarity does not define trade opportunities. He believes that government learned more from the process than business. Bureaucrats were surprised, he said, that business was not driven by greed.

Mr. Denis Gastin, former Chief Executive of the MFP Joint Secretariat, 28 February 1994 by telephone.
• Can you tell me about the debate over whether the MFP should have been a single city or a dispersed concept?
• What, if any, were the links between the MFP and the Amaya Mission Exchange?
• What happened to manufacturing?
I have difficulty getting my mind around the idea that Japan needed to find a way to make their own cities better by building something in Australia. Would you comment?

Why was Japan insistent on the site issue?

Why did you resign?

Mr. Gastin said MFPAR (led by Mr. Doherty) believed that Japan knew something about Australia that we didn't know, but they missed the obvious point that Japan was worried about the state of their cities. Japan finds the idea of having a clear space to create a new city tremendously appealing, enough even to concede investment in other areas. Japan had two motives—firstly, Australia had beaten a path to Tokyo wanting investment in something other than real estate. But MITI needed a rationale to encourage Japanese investors to look seriously at Australia. Manufacturing could have stayed had Australia found a rationale for it. The MFP itself failed because Australia could not hold Japanese interest in it. When it became politically unsustainable, Australia set about declaring that the MFP was always an Australian project. Since then Japan has stood back and waited for Australia to take the initiative. Mr. Gastin wanted to terminate the Arthur Andersen Consultancy but was blocked by MFPAR who believed having a weak consultant gave them maximum control. He resigned hoping to precipitate some action, but this strategy failed.

Ms. Helen Cox, Assistant Director MFP, Department of Industry Technology and Commerce, 28 September 1989 in Canberra.

What form is the MFP likely to take?

Do you see a continuing role for government?

Do you see the MFP as a catalyst for restructuring Australian industry?

Will the Japanese have the final say on the site?
• Industry appears to believe that their input hasn't been reflected in the marketing document. What is your view?
• What was the most important thing to have come out of this phase of the project?
• Is the involvement of the Japanese important to the success of the project?

Ms. Cox believed that the MFP would most likely take the form of a single city on a greenfield site because the Japanese were insistent about it. She also believed that Australia did not need another city and that the government would prefer the MFP to be integrated into an existing metropolitan area. The project would not go ahead unless it was privately driven and government would not be involved in providing industry assistance. She considered that the process of developing the concept was more important than the outcome and that it provided a way for government to identify commercial opportunities without picking winners. As a result, their language has become 'more strategic'. Senator Button believed that the project fitted well with their policy of internationalising Australian industry. The Japanese proposal had acted as a catalyst for thinking about a range of possibilities that Australia would otherwise not have thought about on its own. A major problem was getting and keeping industry involved. Another was that they had not kept the public more informed.

Mr. Neville Stevens, former Deputy Secretary of the Department of Industry Technology and Commerce on 9 February 1994 by telephone.
• Did the project originate as publicly stated?
• Can you explain government's role?
• What do you think was Japan's motive for suggesting it?
• What went wrong?
The project was first raised at a routine Australian/Japan Ministerial Committee meeting in January 1987 by MITI. The government was concerned about how to respond. They wanted to respond positively but were guided by the nine principles agreed with the states. Also it had to have private sector backing. As time passed it became apparent that the Japanese were fixated on subsidies, but as the Australian government was not interested in offering any it was necessary to try to limit their demands. The Australian private sector was driven by commercial opportunity, not arguments about the site, but commercial opportunity was not identifiable if there was no city. Japan knew this, but they were more interested in the twenty-first century living aspects and less in commercial opportunity.

Interview with Mr. John Button, formerly Senator Button, 28 September 1993 in Melbourne.

- Where did this proposal come from?
- What was your role?
- Was communication good between you and the JSC?
- Were you aware of the arguments about whether the project should be city led or led by commercial opportunities?
- What happened to manufacturing?
- There seemed to be an overriding concern by many participants, both private and government, not to upset the Japanese. Do you think that is true?
- What do you think the Japanese wanted out of the project?
- Do you think we have learned anything from the project?

Japanese Prime Ministers and others had been articulating the idea of Japan as the most powerful economy and Australia the second most sophisticated economy in the region. The MFP was meant to facilitate the expansion and improvement of existing links between the two countries. Government
favoured a city led project because that is what they believed Japan would fund. The tensions that existed over this issue were exacerbated by Mr. Doherty’s (a friend of Mr. Button’s) belief that Australia was smarter than the Japanese and did not need them in the project. Mr. Gastin did not agree with Mr. Doherty’s view. Mr. Button said he thought that industry may have seen the MFP as a way of getting access to the policymaking process which they always value, because the mechanisms for communication between government and industry are not good. The process was slower than they would have liked because they had to confront bureaucracy and the federal system. Mr. Button did, however, see the possibility of a national development strategy emerging from the think tank process, but said the MFP was never conceptually linked to it. He was unaware that MITI thought of the MFP as manufacturing based. He said “the tragedy of the MFP in government terms was that although ministers said they supported it, none of them did anything about it or to encourage it”. The project was, moreover, hamstrung by the nine principles which said no money would be spent on it.

Mr. Lynn Arnold, South Australian Minister for Industry Trade and Technology, 19 September 1989 in Adelaide.

- How do you envisage the MFP project?
- It appears that business has failed to find new avenues for growth and that government sees its role as pointing the way. Do you agree?
- Do you think it is possible for business to look ahead 30 years?
- Do you see any on-going role for government in the MFP?

Mr. Arnold saw the MFP as viable only if it was developed as a hub and spoke concept. A megalopolis would be too inefficient and expensive and the benefits would not reflect the costs. The MFP should be a vision that would reach out into the wider community. The government’s role should be as
facilitator and business should recognise that their interests are coincident with a thriving national economy and take a wider role than narrow self interest would dictate. He acknowledged that they would be constrained by the interests of their investors.


- Are you spokesperson for the opposition on the MFP?
- Has information on this project flowed through to the opposition?
- How do you get information about the status of the project?
- What are your main concerns?

Ms. Cashmore said that there was no spokesperson in the Opposition on this project, but that she took it up as an issue when she was Shadow Minister of Environment and Planning and because of her strong interest in planning issues. She was speaking now on the issue as Opposition Spokesperson on the Economy. She believed that the Liberal Party should not let such an enormous project develop by default, but their lack of access to the facts made this difficult. She did not want the government to proceed until there was wider understanding of where the project might be taking South Australia. She reiterated the concerns she raised in Parliament that more attention should be paid to the economic, environmental, social and cultural impact of the project.

Mr. John Lesses, Secretary, United Trades and Labour Council, 6 July 1993 in Adelaide.

- How did you hear about the project?
- How did the UTLC come to be involved in the process?
• The outcome of the workshop to elicit a union response was that the project would get qualified support on the basis of ongoing involvement. How was that received?

• When you failed to get nominated to the Board why did you not withdraw support, as you had threatened to do?

• Do you feel that your decision to stay involved rather than standing on principle paid off?

• What was the ACTU’s reaction to the project?

• Do you take the work of John Mathews seriously?

• Has it been the union movement's objective to keep Labor in Office?

Mr. Bruce Guerin and Mr. John Mayfield informed Mr. Lesses about the MFP on the basis of the UTLC being one of the major industrial relations partners in South Australia. He believes it was an attempt to establish a tripartite mechanism from the outset in terms of consultation. At that time Mr. Lesses did not know that it was meant to be a national project. It evolved that the UTLC would formulate a national union position on the MFP. Their response was limited by their knowledge and by the distorted nature of the public debate. Mr. Lesses felt that their bargaining position was weak because in terms of priorities they were “way down the bottom”. The lack of interest in the project by federal unionists weakened their position even further.

(Several unsuccessful attempts were made to interview a spokesperson for the ACTU).

Mr. Rod Nettle, Chamber of Commerce and Industry S.A. Inc., 19 September 1989 in Adelaide.

• Do you think South Australian business will support the MFP if this state wins the project?

• What do you understand the project to be?
• Why do you think business has been involved, but not trade unions?
• Do you see any role for your organisation in the MFP?

Mr. Nettle said that business will generally support anything that will promote growth. His perception of the MFP was as a city within a city involving a sizeable movement of Japanese investment offshore, particularly in manufacturing. This would help to broaden their economic base and insulate them from economic downturn. He envisaged the location of a significant amount of Japanese manufacturing, particularly in the high tech area, into South Australia and involving South Australian firms. He also believed the South Australian government was capable of securing such a project. He saw no reason to involve trade unions until it was certain that the project was secured. He said that unions cannot start anything, but they can stop them. His organisation’s main concern would therefore be to ensure that unions did not stop the MFP.
The MFP project resulted in a great deal of concern being expressed about its potential impact on the Australian way of life. This material was not covered in the development of the thesis because it was not directly relevant to the arguments made. An annotated bibliography of sources that critically reflect upon the project is provided here.


Yencken, David (1989). 'The Multi-function Polis: Social and Strategic Issues', *Australian Planner*, Vol. 27, No. 2, June, pp. 22-25. Outlines some strategic opportunities: the development of new orientations and perceptions about Australia's role in the Asia-Pacific region, the use of the project as a catalyst to bring about structural change, a more thoughtful approach to collaborative international research, the development of more effective regional policies, a rethink of major city development, the development of a clearer focus on social disadvantage, international collaboration on environmental regeneration and consideration of how technology can enhance a sense of community rather than that the reverse.

Argues that the problem with the MFP is that any hopes there may be for 'equality, diversity and creativity in a new 21st century community' are pinned on a fundamentally private-profit oriented venture.

Cashmore, Jennifer (1990) 'MFP: Sensible participation will be permitted', *Adelaide Review*, No. 80, September, pp. 6-7.

Says there is a surprising difference between the vast amount of time and space given to the project outside of Parliament and the minimal time devoted to it inside.


The builders of the 'New Jerusalem' are facing something of a chicken-and-egg problem. The MFP is supposed to provide new environmental technology that will solve Gillman's pollution problems, but the first brick can't be laid until the problems have been solved.


Examines the conditions for Australian acceptance of the MFP. Key issues are location, internationalisation, high technology, contract employment, internal organisation and decision making.


- James, Paul 'Australia in the Age of Technocracy'.

   Australians are being sold the promise of a glittering future shaped by market forces. Advocates are borrowing the language of their opponents
to stress their vision as a solution to the problems of environmentalism, humanity and culture.

- Rundle, Guy 'Australia's Deliriosa Furiosum'.
  Projects such as the MFP are the result of an 'imaginary vision' which has emerged in response to perceived economic and cultural crises, and critics are likely to be labelled paranoid or new Luddites.

- Tankak, Yuki 'The Japanese Political-Construction Complex'.
  Argues that a 'political-construction complex' involving a corrupt relationship between construction companies and government in Japan has implications for costly and unnecessary projects in Australia.

- David, Abe and Wheelwright, Ted 'The Sale of the Century'.
  Argues that extensive Japanese investment in Australia in the 1980s will make Australia vulnerable to the fortunes of Japanese speculative capital.

- Rimmer, Peter 'Kumagai Gumi in Australia: The Second Phase of Development'.
  Examines the role of Kumagai Gumi to argue that such international construction companies are acting as agents to reconstruct the built environment, using transnational and domestic capital. Regional governments facilitate their schemes in their anxiety to provide evidence of wealth generation.

- Huxley, Margo and Berry, Mike 'Capital Cities: Polarizing Social Life'.
  The emphasis on development since 1985 in Australia, driven by an apparently endless influx of investment capital, creates an artificial image of affluence and growth, but it comes at the cost of housing and
manufacturing. The result may be over-development and the devaluation of real estate.

- McCormack, Gavan 'And Shall the Multifunction Polis yet be Built?'
The MPF is at the heart of plans by Japan to integrate the Japanese and Australian economies and is based on a perceived need to establish a division of labour within the region and to gain greater access to resources. It is also partly based on a utopian goal of building a perfect city.

- Sugimoto, Yoshio 'High-Tech Cities for Lonely Technocrats'.
Argues that the project is marked by an absence of a participatory and democratic process. There is also a danger of creating an enclave of technocrats, a worrying ignorance of Japanese society on the part of Australian project managers, the absence of safeguards against colonizing effects and the improbability of technology transfer and skill formation emerging from the project.

- Broughton, Alan 'Supertrains and Supercities'.
The MFP and the VFT (Very Fast Train) projects have overlapping interests, both are surrounded by secrecy and both may require extensive compulsory acquisition of land.

- Mouer, Ross 'Beyond a Corporatist Relationship to the Japanese'.
Argues that the MFP is likely to result in the establishment of a technocratic enclave in Australia and attention must be paid to deepening the basis of communication between the Asian and Australian cultures in order to break down any tendency toward such schisms.
• Frankel, Boris 'Towards an Alternative Australia'.
  Argues that advocates of market forces envisage flawed solutions to our problems and suggests an alternative 'semi-autarkik' strategy.


- Sugimoto, Yoshio and Mouer Ross E. 'Towards a Debate on the Multifunction Polis'.
  Provides some background to the debate and identifies some of the central issues as development, racism and decision making.

- Camilleri, Joseph 'The Emerging Pacific Economy Australia's Role'.
  Argues that the MFP must be understood as part of the opening up of the Australian economy in order to benefit from rapid growth in the Northeast Asian region.

- McKay, John 'Restructuring in the Context of Asian Development'.
  Questions some generally held assumptions that underpin economic arguments about the need for the MFP.

- Littler, Craig R., 'Technology Transfer and Innovation: Australia in an Asian Context'.
  Examines the history of innovation in Japan and questions whether cities such as the MFP are appropriate vehicles for technology transfer.
Mouer, Ross 'Japan Literacy' in a Corporatist Asia'.
Care must be taken in developing strategies for 'Asia literacy' if Australia is to avoid the development of an ethnic enclave or to reinforce an existing tendency towards the establishment of a technocratic elite.

Morris-Suzuki, Tessa 'From Technopolis to Multifunction Polis: High-Tech Cities in Japan and Australia'.
By examining similar overseas developments, particularly in Japan, the author attempts to give some form to this vague concept.

Hallinan, Geoff 'The Multifunction Polis – The Facts'.
Gives a brief chronology of the history of the project and argues that, contrary to popular opinion, a great deal of information is freely available about the project.

Berthold, Trevor J. 'The Australian approach to the Multifunction Polis'.
Outlines Australia’s approach to using the MFP concept to create the future, and particularly addresses the role of MFPAR.

Yencken, David 'Erewhon and Gnihtox: In Search of the Multifunction Polis.
Critically evaluates some of the major initiatives that have emerged from the concept development phase and expresses dismay about the lack of attention paid to his own report.

Murray, Barney 'The Multifunction Polis – Its Already Happening'.
Existing development along the Brisbane-Gold Coast corridor indicate that the social and economic forces that are meant to be nurtured by the MFP are already emerging.
James, Paul 'Crucibles of Deception: The Multifunction Polis as a Utopian Technocracy'.
Public debate on the MFP has been carefully managed with government and business working to define the project in secret. Leaked documents portray a "complex and contradictory picture of technocratic passion and subtle crassness". The MFP is more likely to approximate Aldous Huxley's *Brave New World*, rather than remedy any of the problems that have already arisen from similarly ill-conceived ventures.

Sugimoto, Yoshio 'Five Concerns about the Multifunction Polis Project'.
Expresses disquiet about the racist label being attached to people who express unease about Japanese economic domination, and lists five 'race-free' concerns: the absence of democratic processes, a possible enclave of technocrats, the absence of knowledge about Japanese society, the need for safeguards against colonising effects and the unlikely transfer of technology and skill formation.

Van Moorst, Harry 'The Multifunction Polis: Incubator of Elitism'.
The major problems associated with the MFP derive from its imperialist undertones and its utopian imagery. Van Moorst argues that the MFP is likely to exacerbate economic and social inequalities and further threaten environmental damage.

Burgess, Tony 'The Multifunction Polis Concept: A Scientist's View'.
The project's origin in Japan and its focus on wealth creation are incompatible with Australian society's long term goals which are to redefine wealth in terms of a clean environment and the right to self-determination. The government must remain involved in planning, control and financial support to achieve these goals, rather than leaving
control in the hands of the private sector which will inevitably overemphasise wealth creation.

- Speight, John 'Labour and the Multifunction Polis'.
  Expresses concern that the MFP may have a negative effect on Australia's industrial relations, especially in further isolating the union movement from the Australian workforce.

- Whiteside, Bruce 'For a Fair Go in Discussing Japanese Interests in Australia'.
  The nation appears to be becoming 'Japanised', especially the Gold Coast, and ordinary Australians are being excluded from decisions that will shape their future.

  There is a need to question the extent to which public consciousness is being shaped by a particular view of Japan being fostered by the MFP debate which may undermine the development of a broader and longer term view of Japanese society.

Arbouw, John (1991), 'MFP can be made, but are we ready for it?' Australian Business, Vol. 11, No. 34, 19 June, pp. 54 and 56.
Says the structure of Adelaide's proposed MFP is feasible from an engineering standpoint, but asks if the concept too idealistic.

Discusses the social impact of the MFP.

The MFP has emerged at a time of fundamental structural change in trade and investment on a global scale and our 'lucky-country' reliance on Australia's natural attributes has been shaken. If the MFP is to succeed the challenge for Australia is to find the courage and energy to make the necessary commitment.


The project has been poorly managed and should have been better controlled by the Commonwealth Government. Despite the problems with Australian decision-making processes, the project still holds out significant potential for the industrial and commercial future of Australia.


Although the name MFP continues to be used the concept is quite different now that it has moved to Adelaide. Public support should be conditional, however, on the full availability of development plans.


- McCormack, Gavan, 'Intimations of a New Order'.
  Throughout its history Australia has developed special relationships with international powers and is now pursuing a new special relationship with Japan. The single most important project in the development of this relationship is the MFP.

- McCormack, Gavan 'The Australia-Japan Relationship – The First Hundred Years'.
  Traces the history and transformation of that relationship.
• McCormack, Gavan, 'Coping with Japan'.
  Provides some background to the MFP proposal, the site selection process, and outlines some problems. Argues that the MFP has the potential to change Australia's relationship with Japan.

• David, Abe and Wheelwright, Ted 'Japanese Global Economic Strategies and Australia'.
  Japan's fear of being locked out of trading blocs has resulted in a two-pronged strategy to develop a Co-prosperity sphere Mark II: firstly it involves direct foreign investment to attain insider status before the blocs form and secondly, securing key resources and relocating declining industries to the periphery of a Japanese-dominated Asian region. The problem for Australia will be how to benefit economically and socially from this strategy.

• Ohe, Shinobu 'Future City Planning: The Japanese Experience and the MFP'.
  Provides some insight on the Australian-Japanese relationship from the perspective of Japan and some background on Japan's 'Future City Plan'. Argues that Japan is no more likely to realise a city of the future in Australia than in Japan.

• Peter J. Rimmer, 'Global Techno-Belts in the Twenty-first Century'.
  Examines the Mitsubishi Electric Corporation's Technopolis: Taking the 21st Century in Advance which offers an outline of the Technopolis and advocates exporting the concept to industrialising countries in the region. Although Australia is not mentioned in Mitsubishi's report, Rimmer discusses the MFP in that context.
Morris-Suzuki, Tessa 'MFP and the Japanese Development Model'.
Argues that Japan's Technopolises have failed in Japan and are not a useful model for Australia. There are lessons that Australia can learn but those lessons need to be assessed within an understanding of Australia's limited commercial and marketing structures.

McCormack, Gavan 'High-Touch: Leisure and Resorts in Japanese Development'.
Superior Japanese economic management has improved the amenities but not the quality of life for Japanese people who work longer hours than anyone in the industrialised world. Japanese people are also disoriented by rapid growth, and such disorientation breeds alienation and unrest. 'Resort Laws' have failed to address the problems and unless Japan develops a "democratic and ecological ethos" it will not be able to address its problems in the international sphere either.

Sugimoto, Yoshio 'Australia-Japan: Partnership Across a Cultural Divide'.
Australia and Japan suffer from status inconsistency with Australia a fully-fledged partner in western civilisation and Japan, despite its economic achievements, yet to attain comparable status in the international cultural sphere. The current emphasis on 'learning from Japan' must be tempered by a realistic understanding of the differences.

Reproduces submissions received by the Community Consultation Panel following the Community Consultation phase of the project. Issues raised include: global issues and attitudes, national policy issues, core site environment, local and regional issues, planning and development,
participation and governance, economic and financial issues and business opportunities.


Reiterates the argument made in The Clever City that only good preparation, including adequate research and investigation, sensitivity in international dealings and an adequate public debate on this issue will ensure that any decision about whether to proceed is based on solid reasoning rather than misinformation.
ABBREVIATION


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Berthold, T. (1989a), '$40b investment possibility from Multifunction Polis', *Engineers Australia*, 30 November.


Brain, P. (1989), Interview Mr. Peter Brain, Executive Director, National Institute of Economic and Industry research, 29 September. Melbourne.


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