



Centre for International
Economic Studies

Discussion Paper
No. 0213

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Microeconomic Reform: the Change in
Twentieth Century Policy Regimes**

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July 2002

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ISSN 1444-4534 series, electronic publication

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ABSTRACT

From the Australian Settlement to Microeconomic Reform: the Change in Twentieth Century Policy Regimes

Geoffrey Brennan and Jonathan Pincus

This paper outlines and discusses explanations of the substantial shift in the economic policy regime in Australia. The first regime held from federation through the 1970s. It focused on extensive development, through the attraction and retention of selected immigrants by a set of mutually-supportive policies centered on trade protection. The second strategy, of recent vintage, concentrates more on intensive development and, in contrast with the earlier, relies on economic competition, rather than attempting to suppress it. Similar shifts in policy regimes have occurred in other countries, but with different timing and character. In the Australian case, there was bi-partisan support for the claims that liberalization was a desirable response to the changed external economic environment.

1. Introduction

Australian economic development has been the result of the efforts of millions of individuals, operating within systems of law and custom conducive to economic activity in markets.¹ Government has been crucial in the maintenance and evolution of those systems. Also, governments have attempted, with some limited success, to force the pace of economic development and, with greater but sometimes-temporary success, to influence the composition of economic activity. The first, national policy regime lasted for about 75 years, and was designed to stimulate economic development of a labour-using kind. It was a coherent package, a complex of integrated elements centered on tariff protection and an active but restrictive immigration policy, and supported by extensive labour market regulation, by public ownership of infrastructure, and by social security pensions. The protective regime proved adaptable to changed circumstances and demands. For most of its long duration, this ‘protectionist’ regime commanded widespread support, of elite opinions (e.g., almost all prominent economists were protectionists until the 1960s), of political parties, and of voters generally. However, in the 1960s and 1970s, it came under increasing criticism.

Central to our interest is the contrast between this earlier, highly regulated, highly ‘protected’ regime and that constructed mostly from the mid-1980s, which is open to foreign competition, and is largely de-regulated and privatized. At federation and for more than six decades, market competition (especially foreign competition) was widely regarded in Australia with suspicion or worse; in contrast, by the end of the century, at least in mainstream commentary, competition was praised as essential and beneficent. Having persisted with some of the highest tariff rates in the OECD, in the 1980s Australian governments decided to dismantle trade protection almost completely, and unilaterally. At 1901 and through the 1920s, the government was a major player in capital acquisition and investment; by 2001, it was a bit-player in capital markets, at least as a direct participant. At 1901, Australia has one of the largest shares of government spending to GDP in the developed world; at 2001, that share is one of the smaller.

We want to examine explanations of why what occurred did occur, when and how. As a preliminary to such explanations, it is important to state two features of the Australian story. The first is that this kind of change in regime occurred in a number of countries. Unless these similarities were mere coincidences, explanations of the Australian case must have regard to common causes, even if the effects were identical neither in form nor in timing. The responses of the Australian political system to these common international causes were slow in coming, but were relatively thorough-going, towards liberalization in most markets, while preserving and extending publicly-funded

¹ Much of the growth in living standards occurred in the second half of the century. See World Trade Organization (1998 and 2000); Boehm, (1993), Table 2.2; Australian Bureau of Statistics (2001), Table 29.7.

‘social safety nets’.² When the Australian Labor Party led the change in policy regime in the 1980s, it did so with the support of the leading business and trades union organizations, and in the context of considerable bi-partisan political support; and subsequently it lent support when Liberal-National Coalition in government pressed further with economic liberalization. And this is the second set of facts that must discipline any explanations of the Australian case—the earlier regime commanded widespread political allegiance; and its over-turning had bi-partisan support.

We suggest that external or exogenous factors made liberalization of the regime extremely likely, if not inevitable. However, the timing of the change and the character of the new regime were conditioned by internal Australian circumstances.

Our interpretation is that the micro-economic policy shifts of the 1980s and 1990s were what broad sections of both major political parties, and certainly most informed commentators, regarded as an advantageous if not an optimal response to changes in Australia’s external circumstances. In making our claims about the responsiveness of the political system, we are not denying a role to the ideas of bureaucrats, journalists and economists, nationally and internationally —policy changes were influenced by interpretation of the results of past policy choices, and of extrapolation to new circumstances; nor do we dismiss the influence of special interests. We do, however, attribute less to these than has been common. Specifically, we downplay the role of reform in the Australian constitutional or political system, so that it (allegedly) became less responsive to sectional interests and rent-seekers.³

The outline of the rest of the paper is as follows. Sections 2 through 6 are broadly historical. We spend some time in establishing the nature of the first development strategy and in understanding its longevity. Next, we turn to the transitional period of the 1970s, when the strategy came increasingly under attack; and then outline the radical changes starting in the 1980s. Sections 7 and 8 pull together and reflect on explanation; and section 9 has conclusions.

2. Development Through Protection: Beginnings

For the first sixty or so years of the 20th Century, the development strategy pursued by Australian governments was based on public infrastructure support (mostly a State responsibility) and the federal customs tariff. The primary developmental goal was to accelerate the rate of increase of population, through the growth of jobs at attractive wages and conditions. Import protection was tailored to attract industry, manufacturing especially, or to retain it after it had sprung up in Australia under the conditions of war. During in the first decade of federation, the protective tariff was embedded in a package of measures which has been labeled “the Australian Settlement”. Increasingly elaborate labour market regulations were made to spread the benefits of protection to the working

² In the terms of Peter Hall and David Soskice (2001), Australia’s is a ‘liberal market economy’, rather than a ‘coordinated’ one.

³ Historical explanation of this kind can lend the account a false sense of inevitability. We should, however, emphasize at the outset that, though our account exhibits a ‘causal’ character, we accept that choices were made at each point in which human agency was involved.

population. Also, starting with the Old Age Pension in 1908, social welfare provisions and other social benefits reinforced the attraction of Australia as a place to live. The tariff was gradually extended in range beyond the coverage already established by 1904/5, and beyond the industries born, or greatly expanded, during the interruption of imports caused by the Great War, and finally came to include horticultural and agricultural exportables.⁴ This extension became known as the principle of “Protection all Round” (a logically impossible notion that disguised the fact that there were losers – in this case, the factors of production used intensively in Australian exporting industries). An extreme point in this process was reached in the 1950s (see Section 4 below).

In the first years of federation an important political imperative upon the new Commonwealth government was to provide public revenues to the States of similar magnitude to those the States had achieved with their own, separate, custom duties and excises. Heavy reliance on direct taxation by the States or (especially) the Commonwealth was then unacceptable, both to the free-trade party and to moderate protectionists, on the ground that it would open the way to extremely protective, even prohibitive tariff rates. Initially many Labor members of parliament were skeptical of the claim that the beneficial effects of tariff protection on wages outweighed the detrimental effects of the import tax on the cost of living of the workingman. However, before the end of the first decade, the Labor Party had committed itself to a version of Alfred Deakin’s “New Protection” of 1908, linking wage regulation and the setting of the rates of customs and excise taxes. The prevailing belief seems to have been that tariff protection could serve literally to “protect” the Australian economy from the competition of lower-wage countries. However, the complete “protectionist” package could also redistribute from landowners to workers⁵ and – via publicly funded old-age pensions – from higher income to lower-income families. Its success, however, was assisted by a further measure of “protection” – namely, the exclusion of low-wage/high-productivity immigrants, through the White Australia policy.⁶

Taken as a whole, this package of policies generated more taxation revenues than it used: the tariff was the largest source of revenue for some decades, and the other associated measures were mostly economical in their use of public funds. To extend subsidies beyond a relatively small number of industries (including iron and steel), so as to assist the full range being helped by the tariff but without using the tariff, would have required much higher levels of aggregate taxation. Equally, to subsidize wage payments, rather than to regulate wage rates, would have required very significant public revenues. Some parts of the policy package, like passage assistance or pensions or public works, did consume public funds, including loan funds; but these were elements for which there were then no plausible regulatory or revenue-economical alternatives.⁷

⁴ In keeping with our explanatory scheme, we note that many countries, but not all, increased their levels of import protection and other interferences with international trade, substantially before the onset of the Great Depression, and dramatically in the late 1920s and early 1930s.

⁵ In the literature of international trade theory from the later 1920s, ‘factorial’ redistribution, as a stimulus to population increase, was called “the Australian case” for protection.

⁶ Immigration control was a federal responsibility, but initially each State maintained its own offices in the UK with responsibilities for recruiting immigrants. Passage assistance was provided to suitable immigrants.

⁷ See Smith (1993) for an overview of Australian tax history.

The regime was supported by the dominant belief that it was imprudent to rely heavily on vigorous private competition to achieve some socially desirable outcomes of high general living standards and rapid economic development (including rapid population growth). Parliament did pass the *Australian Industries Preservation Act* 1906, combining restrictions on the entry into Australian industry of non-British foreigners with an “anti-trust” measure designed to prevent price gouging by monopolists (including those created by tariffs). However, parts of the legislation were declared unconstitutional, and the judicial declaration that competition was potentially ruinous opened the way for Australian courts to approve monopolistic arrangements and practices. A classic expression of the ‘dangers’ of competition is to be found in the 1912-13 High Court judgment in the (coal) Vend case: “Cut-throat competition is not now regarded by a large portion of mankind as necessarily beneficial to the public...[T]he intention of the parties was to put the Newcastle coal trade on a satisfactory basis, which would enable them to pay adequate wages to their men and sell their coal at a price remunerative to themselves”.⁸ Non-competitive behavior by private business was permitted, even encouraged, under non-Labor governments. The Labor Party accepted monopolies as inevitable, but wanted them to be *state* monopolies. Competition, that is, was typically regarded as a transitional stage leading to the creation of monopolies by private action or by nationalization; or as being properly confined to arenas where it would do no great harm. (The first decisive federal action against private monopolies was taken in 1962: see Brunt, 2000)

An associated feature of the protectionist regime was that it created and used public administrative and planning bodies as substitutes for competitive markets – and sometimes for markets of any form. Commentators around 1901 regarded the ‘fiscal question’— free-trade or protection— as the most significant economic issue left unresolved at federation, and later scholars have agreed. Mancur Olson (1982) argued that Australia took a crucial, retrograde step by adopting a protectionist regime shortly after federation. In Olson’s analysis, a stable set of democratic institutions permits or encourages the gradual accretion of growth-retarding coalitions of special interests. Olson claimed that his theory of institutional sclerosis fitted the Australian case well. In doing so, he had to argue that the implementation of the new Constitution in 1901 did not disrupt existing pressure groups (or, at least, not enough to unleash a burst of rapid growth). Our interpretation places a different emphasis. Once the content of the overall developmental strategy was determined, the question of its details became pressing to the governments of the day, and to interest groups. Governments encouraged the activities of specific interest groups to such an extent that, for the tariff at least, it is possible to mistake the epiphenomena, interest group activity, for the main phenomenon, a decided policy of targeted tariff protection. The common pattern was for governments to rely on *ad hoc* inquiries (Royal and other Commissions) to scope the policy initially, and to evaluate it periodically; but to rely on a statutory authority or the like, for continuing, detailed advice or determinations. To give the Commonwealth government advice on appropriate range of industries to be protected and the appropriate rates, a continuing

⁸ Cited in Fitzhardinge (1964), p. 270. There is a remarkable parallel with the rationale, given in July 2001 by Professor Alan Fels for the authorization by the Australian Consumer and Competition Commission of collective agreements between sugar growers and sugar crushers.

advisory body called the Tariff Board was established in 1921; under that name, it lasted until the 1970s. Not only Australian manufacturers but also British were heard at the Board; not only manufacturers, but other interested parties (including rural interests). Similarly, trade unions and employer groups were given the right of representation at the administrative and quasi-judicial bodies regulating terms and conditions of employment; trade unions were given a legal status that they had largely lacked in the nineteenth century. (Wage boards and industrial courts were empowered to make rulings with the effect of law; in contrast, the Tariff Board was advisory only).

The early regime was characterized by two further elements: significant public spending, much of it borrowed abroad, on economic development; extensive public ownership and operation of public utilities. About 15 percent of the workforce was then employed in the public sector, a portion much higher than in other countries with similar living standards. Effectively, the government's role as borrower encouraged a more extensive role as economic planner. Noel Butlin (1980) estimated that public capital formation reached over half the economy's total in the 1920s, with public enterprises accounting for around half of public capital expenditure. In an economy that was mostly private, in which the public sector was a large borrower, initially the only rules available to guide public investment were those of business. Private lenders, especially foreigners, were concerned with the capacity of governments to repay. Accordingly, large public investments were generally at first promoted as eventually being able to 'cover' costs from receipts. That stringent commercial standard was later relaxed and investments came to be 'credited', as it were, with financial advantages that would flow to other parts of government (like extra taxes or land sales or rents), so that the public sector was considered as one vast enterprise (a 'whole of government' approach). Ultimately, the justifications for public investments included the value of the spillovers to the private sector (a 'whole of economy' approach).⁹ That is to say, the idea grew that market-like outcomes could be achieved by non-market means, and that those outcomes had normative standing.

3. Protection All Round

Protection in Australia has been more than a policy; it has been a faith and a dogma... With such a unity of spirit subsisting between private interests, public opinion, and the Commonwealth Treasury, it is not surprising that the tariff has grown rapidly outwards and upwards.

WK Hancock, *Australia* (London: Ernest Benn Ltd, 1930), pp., 89, 90.

When we turn later to explaining the abandonment of the protectionist regime, two sets of tensions are important: those generated within the protection policy regime itself; and those between that regime and the external circumstances of the nation. However, until the 1970s, the system was adjusted and extended in efforts to cope with unintended consequences or unanticipated events—indeed, the first two massive disruptions of the

⁹ See the discussion in Part 4 of Butlin, Barnard and Pincus (1980) and the dispute between Frost (2000) and Boot (1998); also, Greenwood (1955).

world economy worked to the reinforcement of protectionist policies, rather than to their dismantling.

In Australia, the Great War intensified the view that security lay in a larger population and a larger and more diverse national economy. Manufacturing tariffs were extended to activities and industries given artificial stimulus by war, and beyond, in machinery and other metal products, and in electrical, chemical, and rubber manufactures. Additional rural jobs were to be generated through closer settlement schemes, in part a response to the problem of employing war veterans, British as well as Australian. Rural settlement was supported by subsidized irrigation works and transport infrastructure. The necessary loans were negotiated by the Commonwealth and, by the mid-1920s, borrowed by the Commonwealth on behalf of the States.¹⁰

World commodity markets were distorted in the 1920s, as countries increasingly subsidized agricultural production and exports, and raised barriers to imports. In a series of Imperial Conferences, Australian Governments attempted to secure preferential access to markets for Australian agricultural exports, with some success (Nicholson, 1955). To maintain Australian consumer prices above world prices in peacetime and to 1920s “offset” the burdens that manufacturing tariffs placed on rural activities, the preferred form of federal assistance was agricultural tariffs; or (for sugar and hops) import embargoes. And the Commonwealth empowered growers’ boards to conduct ‘orderly marketing’. Not unexpectedly, these arrangements stimulated production of the assisted products and, to that extent, worsened the marketing problem.¹¹

In 1929, a group comprised (mostly) of economists reported to government on “the Australian case for protection”: the tariff had stimulated immigration and population, without causing an appreciable diminution of the living standards of workers. However, the 1929 inquiry reported, the development strategy had about reached its economic limits. As to primary industry, the results of closer settlement schemes were excessive production of certain products and, consequently, appeals for government assistance in their marketing (i.e., for schemes to inflate artificially the prices paid by Australian consumers in order to finance the subsidisation or dumping of surpluses in foreign markets). Regarding secondary industry, the Tariff Board, after less than a decade of operation, worried that the protective system had a tendency to excess. Wages boards had increased pay rates on account of profitability, which was itself boosted by tariff rises granted on account of the cost disadvantages of Australian industry caused by high wages; and so on. There was an artificiality about the economy, and an inward-orientation that to many contemporary Australian and foreign observers seemed conducive to complacency. Both the Tariff Board and tariff inquiry warned of the dangerous inculcation of what now would be called ‘rent-seeking’ mentalities: “The most disquieting effect of the tariff has been the stimulus it has given to demand for government assistance of all kinds, with the

¹⁰ The inter-war economy is treated in Greenwood (1955).

¹¹ Country Party members in Federal Parliament in the early 1920s had to be convinced by their leader, Page, that it was fruitless to make a wholesale attack on tariffs--it was better to try to moderate tariffs on agricultural inputs and machinery, or push for bounties on them; meanwhile, trade protection could be extended to agricultural products, in support of various price-raising “marketing” scheme. The Country Party also was interested in publicly-funded agricultural research, in rural transport and communications services.

consequent demoralizing effect upon self-reliant efficiency throughout all forms of production”¹².

In later assessments, the scorecard is mixed.¹³ Australian population grew from under 3.8 million to 5.4 million, 1901 to 1920, and thence to about 7 million by 1940, one of the highest growth rates among western economies but lower than in the USA or Canada. Migration added about one-third to the natural rate of population increase, in fits and starts – it was virtually zero until 1910, and again in the 1930s (when the natural rate collapsed). Primary as well as secondary production had diversified, the area under crops tripled, and the reliance on wool and gold exports declined. Substantial additions were made to the urban infrastructure; the length of railways doubled. Living standards, however, rose slowly, and more slowly than those of the very richest countries.

That the tariff strategy had reached its own limits; that further increases and extension of import protection would not contribute much to overall development, or to growth in employment, population and production—these conclusions, if accepted, suggested either that the goal of boosting development had to be moderated, even abandoned, or that other developmental means had to be found.

Events intervened, however, first a depression and then WWII. In the Great Depression, foreign and Australian loans sources dried up, and public developmental spending ceased. Australian declines in employment were sharpest in secondary industry. Barriers to imports were raised sharply by Australia and by most trading nations, so world export markets were further damaged. Australia attempted to gain trade advantages through the 1932 Ottawa Agreement (relating to trade preferences within the British Empire) and in 1936 through ‘trade diversion’ (aimed at the US and Japan). By the end of the 1930s tariff rates were generally considerably higher than they had been two decades earlier.

4. The Long Boom

The period from the late 1940s until the late 1960s saw rapid and stable economic expansion in Australia. Population grew quickly, with a post-war “baby boom” and a successful and changing immigration program. The unemployment rate rarely rose above 1.5 or 2 per cent. Living standards rose at an unprecedented rate. There was spectacular urban growth. Manufacturing came into its own through import replacement and foreign investment. Exports of primary products were greatly assisted by Myxomatosis, pasture improvements, mineral discoveries and Japan’s economic miracle.

Indeed, the long post-war boom of the 1950s and 1960s, was experienced internationally— in Europe, in Japan and elsewhere, and strongly in the US, then engaged in reducing its own tariffs and encouraging others to free up their internal and external goods and finance markets.¹⁴ In Australia, the restrictive or protective regime reached its apogee during this period; however, the emphasis and pattern of public intervention changed towards direct regulation, away from the use of price-like signals. The claim that

¹² Brigden (1929), p. 6; see also Hall (1958) p. 90.

¹³ See Pope, in Maddock and McLean, (1987).

¹⁴ Olson (1982) attributed the rapid and sustained economic growth of the defeated Axis power, West Germany and Japan, to the reformation of their basis constitutions and institutions.

Australian per capita growth rates of GDP lagged during this period *because* of protection began to be articulated increasingly widely from the 1970s. And this change in perceptions began the process of tariff reform.

Briefly considering three, major, connected aspects—population, investment, and protection—there was substantial population increase, but the sources were not as planned in 1945 (ie, mostly British); and gradually, also, the emphasis moved, from increasing the number of the population and workforce, to improving the quality of the workforce, now in need of more than a primary education. As to the second, public investment, beyond the period of post-war reconstruction, the pattern shifted from developmental to commercially profitable (e.g. a duopolistic airline)¹⁵ or to the social (especially, education and health). Thirdly, import protection was greatly extended, so that by the early 1970s Australian rates of protection were as high or higher than those of any other developed country. The tariff, nonetheless, was overshadowed by the use of various forms of direct (or non-price) controls —of access to foreign exchange and to import licenses.

This last was part of a general shift towards the use of quantitative or direct economic controls. Keynesian theory stressed mechanisms of control that did not rely on the incentive and market-equilibrating functions of the price system, but operated directly on incomes and spending, via economic commands of central government. Also, the immediate post-WWII period saw a worldwide ‘dollar shortage’—the demands of reconstruction and suburbanisation outstripped world supplies; the US was the only plausible net exporter of manufactures in quantity; and US dollars were subject to non-price rationing. In Australia during the 1950s, quantitative import controls were used as a supplementary means of non-price rationing of foreign exchange. In the process, the tariff was temporarily displaced as the chief agency of protection.

We start, now, a more detailed discussion of the period, with investment. In the immediate post-war period, the major Australian political parties professed the same goals of rapid population growth and economic development. However, both sides of politics were also conscious of the difficulties of servicing public debt during the Great Depression, and the nature of the supportive relationship between government and the private sector changed radically. Before the Depression of the 1930s, public sector investment had exceeded private; most of the extensive foreign borrowing was made by the public sector; and a growing share of jobs were in public business undertakings. During the Menzies period, most foreign borrowing was private, directed at manufacturing and subsequently mining. The pattern of public investment itself changed in the 1950s and 1960s, with more Commonwealth emphasis on posts, telecommunications, air transport, broadcasting and universities; and, within State public investment, less for rural and more for urban services in water, transport, electricity and gas. Public enterprises progressively became a source of quasi-tax revenues; or (less commonly) were privatized or commercialized; and, eventually, some of their businesses were opened to private competitors.

As ever, the rapid economic development of Australia required an excess of

¹⁵ State rail investments continued to be protected against private trucks, into the 1960s.

imports over exports, financed by the sale of assets or debt to foreigners. During the ‘Dollar Shortage’, the Australian Government negotiated a large loan in US dollars to assist economic development. Rising levels of import protection in Australia stimulated the inflow of foreign manufacturers; the shortage of dollars to pay for imports from the US was an extra stimulus to American investment in Australian manufacturing.

Turning now to population: the immediate post-war target of 70,000 white immigrants per year (equal to 1 per cent of the population) was met. Migrants were selected for their capacity to add to the workforce, with preference for the young, educated and healthy, with skills in short supply in Australia. During the 1950s, immigrants made up about three-quarters of the rapid increase in the workforce. There were temporary declines in inflows during economic downturns, but generally migration targets rose throughout the 1950s and 1960s. Increasingly, non-British filled them.¹⁶ Most decisively, in the later 1960s Australia finally abandoned the White Australia policy.

How were immigrant and Australian-born workers to be gainfully employed? Western economies did not slump, as was predicted, when the stimulus of war spending was removed. Over the longer terms, the sets of demands that provided most underpinning of the Long Boom, especially in the United States but also in Australia, were those related to suburbia and motor vehicles. Through aid and other forms of diplomacy, the US set about to induce governments to liberalize their economic and financial systems, and to engage more fully in international trade and investment flows. World trade drove world growth.

Australia was slow in deregulating trade and financial flows. Tight controls on foreign exchange and, initially, on public and private investment were used to preserve foreign reserves within the Sterling Area and to dampen booms. When those policies proved ineffective in face of the import boom sparked by the Korean War, the Menzies Government applied counter-cyclical fiscal policy in the Budget of September 1951 and resorted to quantitative restrictions on imports.¹⁷

Thenceforth, Australia was “illiberal”, economically, in the field of international trade. The quantitative import restrictions were in force for most of the ten years from 1952, then replaced by high tariffs. Australia was not a player in the game financed by the United States of trade liberalisation through GATT – until the 1980s Australia was a “free rider” on other countries’ tariff cuts and was an opportunist in principle.¹⁸

¹⁶ Between 1947 and 1961, Australia welcomed over 160,000 ‘displaced persons’ from Baltic countries and eastern and central Europe. In return for assistance, the DPs worked in jobs chosen by government, including the Snowy Mountains scheme. In relation to population, Australia accepted more DPs than any nation but Israel. About half immigrant arrivals between 1946 and 1980 received passage assistance.

¹⁷ During the 1950s, most imports were regulated by quantitative restrictions; banks compulsorily acquired foreign exchange, on behalf of the Reserve Bank, at rates that far from cleared the regulated market; and most agricultural markets were riddled with state interventions. The Menzies government also imposed extensive regulation of financial markets (interest rates and lending were regulated; banks were required to invest in government loans; statutory deposits used to control changes in the money supply).

¹⁸ In addition to its lack of engagement in GATT, Australia did not participate in the institutional international institutional development of the OEEC (which became the OECD).

5 Pressures on the Protectionist Regime¹⁹

The Deakinite development strategy initiated in the first decade of the century, came progressively under question from the 1960s onwards and was eventually abandoned. In Liberal and decisively in Labor Party circles, market competition came increasingly to be regarded as generally a beneficial force, of which more was necessary to bring about improvements in the economic conditions of Australians.

After WWII, as has been outlined, the old development strategy was temporarily reinvigorated. The changed pattern of investment pre- and post-war, however, points to a fundamental switch in developmental emphasis: it was no longer plausible to look to primary industry to provide jobs for a growing population. The most rapidly expanding private industries either were not heavy employers of labour (such as mining) or were located in urban more than in rural areas (such as manufacturing and services).²⁰ The products of broad-acres and mines came again to dominate Australian exports. In addition, concerns were starting to be raised about the effects of the rapid growth of the largest cities, and about the longer term consequences of population and economic growth themselves. Ruling party parliamentarians, notably C. R. (Bert) Kelly, voiced serious doubts about tariff protection itself in the 1960s; as did the Tariff Board and financial journalists.

In the early 1950s, Australian export policy was caught between the desire for price stability through international commodity agreements, and the attraction of a more liberal world trade regime. The value of preferential access to British markets had fallen; and the US, with huge food stockpiles, did not play by GATT rules. Subsequently, Britain declared its intention to join the European Economic Community and abandon Commonwealth preferences. Moreover, Japan, which had already become a significant market for Australian products, joined GATT in 1955. New bi-lateral trade treaties with Britain and Japan in 1957 spelled the end of the Ottawa Agreements of 1932 and began the movement towards a relatively normal trading relationship with Japan, which country became Australia's largest trading partner within a decade.²¹ Australia, little involved in the rounds of tariff cuts under GATT auspices, during the GATT review of 1954–55 had achieved a relaxation of the GATT rules on tariff "bindings", and so calmed the worst fears of Australian import-competing industries.²² A new mining boom and import replacement had relieved anxieties about the balance of trade, and there was pressure for an appreciation of the Australian currency.

¹⁹ Through space constraints and choices there is here no discussion of major components of the service sector, especially transport, innovations in which have been central to the increased globalization of the world economies (e.g., low airfares for foreign students).

²⁰ Textile and other manufacturing firms were attracted to some country towns by their natural advantages and by decentralization policies.

²¹ Because of the powerful roles of McEwen and his bureaucratic advisors, many commentators portray trade policy developments as having been dominated by the interests of the Country Party (e.g., Jenny Stewart, 1995). One is tempted to say that, if McEwen had not existed, Menzies would have had to invent him so as to accommodate powerful sectional interests of regions (electorates) with labour-intensive industries.

²² In a 1963 revision of the 1957 treaty, Australia, so much later than other contracting parties, finally relinquished its right to discriminate against Japanese imports (which it had done since the "trade diversion" episode of the 1930s).

Given its natural and human endowments, and its size, Australia was by then (the late 1960s) remarkably little open to international trade: the nation had partially decoupled itself from the engine of world growth and its ranking had fallen in the list of countries most rich in material consumption from first or second among the developed world, in 1901, to as low as 15th in world rankings of material living standards.²³ Economic historians call the period from the late 1940s until the early 1960s *the Long Boom*, when growth was rapid and steady, inflation was not endemic and unemployment rarely rose above half of one percent, and the working week fell. Nonetheless, the fall in OECD ranking was used to argue for a change in economic strategy.

When the Tariff Board regained its central place in the late 1950s, it found a tariff schedule designed chiefly to regulate British imports, one still dominated by the legacies of decisions made in the emergency of the 1930s, and one that had been superseded in the 1950s by import licences. Tailoring the tariff was what the Board did, but with increasing diffidence. In its 1958–59 report, the Board had declined to elaborate its interpretation of the words central to its remit, namely, “economic and efficient production”. Indeed, the Board ultimately confessed itself unable to justify large differences in tariff rates – or possibly any differences at all. (The 1965 “Vernon” Report, from a Committee of Economic Inquiry headed by a leading businessman, echoed the doubts about the system of “made-to-measure” tariffs). Subsequently, the Board itself became the source of some of the best-informed, skeptical commentary on tariff protection.²⁴

In 1974, the Whitlam ALP Government made a sudden, across-the-board tariff cut of 25 per cent, with the avowed purpose of increasing supplies of imports so as to restrain inflation. Nonetheless, the cut complemented a longer-term political strategy of removing assistance to employers thought mainly to have supported the Coalition rather than Labor;²⁵ also, the reduction was supported by the belief that a more efficient economy would provide a larger tax base for Labor’s expenditure programs. However, that Government’s tactics of “crash through or crash” may have delayed more extensive tariff reform. Falls in employment in footwear, clothing, textiles and motor vehicles – those industries with the highest tariff levels and with substantial presence in country towns – were widely attributed to the tariff cut. Although the Industries Assistance Commission (successor to the Tariff Board) pointed to other, longer term influences as responsible for the decline in employment in manufacturing, and although it was accepted that “stagflation” – a painful combination of rising levels of unemployment and rising prices – had afflicted many other advanced economies, and had been made worse in Australia by chaotic policies, the 25 per cent tariff cut continued to be blamed for unemployment.

There were rises in protection under the Fraser (Coalition) government, meant to be temporary.²⁶ Hesitantly, and with much advice from inquiries and industry councils, the Fraser Liberal Government committed to a slow and uneven process of reduction in the long-term rates of tariff assistance, to be preceded by and accompanied by “positive”

²³ Over two decades, the ratio of imports to GDP had fallen in half, to about 15 percent; and Australia’s rank from third in 1950 to seventh in 1970 to nineteenth in 1991, in GDP per head in US dollars at official exchange rates: Anderson in Pomfret (1987), p. 46.

²⁴ On the Tariff Board, see Glazer, (1982) and Rattigan (1986).

²⁵ The CEO of the largest supplier of automobile components was in the 1960s both Treasurer of the Liberal Party and a major fundraiser for the Country Party.

²⁶ See Boehm, (1993), Table 9.3, Snape, Gropp and Luttrell (1998), p. 12.

adjustment assistance, and with the promise of quick, temporary help against surges of imports, if needed.²⁷ The balance was shifting between revenue-using and revenue-producing forms of industry assistance.

Meanwhile, changes in tariffs and adjustment assistance were made on the advice of the Industries Assistance Commission, still labouring under government instruction to give consideration to a range of matters, while focussing narrowly on the industry at hand. Consequently, when the Labor government did slash tariffs in the 1980s and 1990s, it did so without the benefit of the most apposite kind of advice.

6. Prosperity Through Competition

Wide-ranging micro-economic reforms began under the Hawke and Keating Labor governments, 1983 to 1996, and continued under the Howard Coalition governments that followed. The old developmental strategy was largely overthrown. In its place was a set of policies that encouraged competition in product markets and in capital markets. The change was dominated by the Commonwealth's decisions to reduce and almost eliminate tariff protection. Broadly, however, the States, under Liberal, National or Labor governments, as well as the Commonwealth embraced the switch to a regime putting much greater reliance on competition to achieve policy aims.²⁸

In finance, the exchange rate was floated; it became legal for ordinary Australians to own gold bullion and foreign bank accounts. Interest rates were deregulated; subsequently, the inflation component of nominal interest rates became the primary target of monetary policy. Subsidiaries and subsequently branches of foreign banks were permitted to operate in Australia; regulatory requirements on banks and non-bank financial enterprises were substantially lifted, and new forms of prudential regulation installed.²⁹ The corporation tax system was changed to make more neutral the choice between equity and borrowing.

In international trade, under the Hawke and Keating Labor (and subsequent) governments, the Australian tariff and other forms of industry assistance were gradually reduced and then effectively eliminated, except in a small number of instances. The Tariff Board became the Industries Assistance Commission (free to shift focus from tariffs to broader issues), and then became the Industry Commission; the Coalition government subsequently broadened its remit and merged it with some other bodies to form the Productivity Commission. To ease the movement away from tariff assistance, Labor selectively offered more budget-based assistance (including tax concessions).

²⁷ From Labor, Fraser had inherited the Jackson Committee green paper on manufacturing, chaired by a leading businessman. Jackson urged a reduced emphasis on the tariff as the central element in industry policy, and more on the use of industry councils and on temporary assistance.

A commitment to the gradual reduction in long-term protection was made under Fraser, following the 1979 report of the (Crawford) Study Group on Structural Adjustment (with ACTU President R. J. Hawke as member; later Labor Prime Minister). Crawford urged that positive industry development measures should be in place before an industry was put onto a schedule of tariff reductions gradual tariff reductions (with pauses when unemployment rose above 5 per cent).

²⁸ Painter (1998) discusses federal aspects of the process of microeconomic reform.

²⁹ Both major political parties adhered to a policy of restricting mergers among the four largest banks.

More recently, the Howard government has focused budget assistance on promotion of investment, exports, innovation, competitiveness and resource sustainability; and gave some modest support to research and development, areas usually regarded as exhibiting “market failures”.

In the mid-1990s, ‘National Competition Policy’, agreed between the Commonwealth and the States, was designed to achieve competitive neutrality between publicly- and privately-owned enterprises and to institute new forms of regulation of natural monopolies. In some important instances, this led to the sale in whole or part of significant public enterprises. Also, a number of what had traditionally been regarded as primary government functions were “contracted out” to private firms.

Competition within the private sector was also strengthened. Labor established the Australian Competition and Consumer Commission (based on the Trade Practices Commission and the Prices Surveillance Authority), with greatly expanded powers over private as well as public enterprises.³⁰

Regulation of labor or industrial relations was, it will be recalled, an integral component of the Deakin’s New Protection. Here the story is more complicated and less linear. In the 1980s, the Hawke government deregulated the financial markets while utilising a form of corporatist regulation called “The Accord” in the labour market. However, subsequently the Keating Labor governments’ further moves toward free international trade sparked claims that, without labour market deregulation, Australian industries would be at a competitive disadvantage. Labor’s first attempted to create larger unions, with the expectation that they, like their peak body, the ACTU, would take greater account of the wider, even the national, economic interest; or would be easier to control by the ACTU or government. However, these amalgamations proved to be a transition towards the re-creation of industry and enterprise unions (rather than multi-industry craft unions), engaged in “enterprise bargaining”. Labor eventually introduced some significant flexibility into the system, which the Coalition governments under Howard much increased.

7. Explanations: Changes in the Australian Political System

In explaining the change of Australian policy regime, two intersecting forces were foreshadowed —internal contradictions arising within the former policy regime, and pressure of external forces. We will amplify on these, in the next section. To this simple schema we also add consideration of exogenous changes within Australia, of a constitutional or quasi-constitutional kind. It is useful to examine the possible effects of these first. Two changes are considered: proportional representation in the federal Senate; the central government’s monopoly of the income tax. Both occurred forty or so years before the change in policy regime.

The dramatic change in the Australian policy regime was made within a competitive, democratic and federal political system in which there is substantial party discipline. Australia has been a democracy for all of the period under review, and constitutional

³⁰ A useful checklist is Industry Commission (1997).

change has been slow. The distinctive features of basic Australian institutions lie mostly on the political side, not the economic. These include compulsory voting, preferential voting, and an unusual bi-cameral structure at the federal level, all combined with a strong party structure – features which taken together make the prevailing political system interestingly different from others in the Western world.³¹

For Mancur Olson (1982), the adoption of and persistence with protective tariffs were evidence enough that Australia was or is a nation liable to severe forms of institutional sclerosis, through the operation of interest groups. However, we portrayed the first policy regime in consensus terms, rather than merely as the result of successful sectional pressure. While stressing that there are broad similarities in basic economic ‘constitutions’ among a range of ‘western’ countries —specifically, extensive reliance on markets to provide most of what citizens consume— we must also note the existence of specific differences in the policy regimes, in terms of the objectives sought and the means used. In the Australian case, from the nineteenth century and well into the twentieth, policies were influenced by a widely-accepted objective of achieving a rate of economic development more rapid (it was believed) than could be provided without public assistance.³²

To reiterate: we are relying on an implicit public choice model, of a democratic, median-voter type.

A number of features of the Australian change towards a more competitive policy regime are worth noting. First, the change encompassed a broad range of industries and economic activities—goods as well as services, internationally-traded as well as domestic, publicly-owned as well as private. Secondly, it involved changes in a great variety of laws and regulations – again, public as well as private. Thirdly, partly for Constitutional reasons, some of the changes required simultaneous action from the Commonwealth and all of the State governments. (Local governments are creatures of their States). Next, although there was criticism and opposition from within and without the major political parties, the change in policy regime had bi-partisan support, with the lead taken at the Commonwealth level by Labor governments, and in the States by Liberal or National or coalition governments. The important role played by a series of committees of inquiry usually headed by prominent businessmen, or others outside the ranks of public officials, was a further noteworthy feature.³³ And finally, there was the centrality in the new regime of a long list of independent statutory bodies, of which the Australian Consumer and Competition Commission is simply one example – although certainly a most significant one.

We see these features to be consistent with an interpretation that the change in policy regime was evidence of a political system that was responsive to perceptions of the general interest, rather than a system dominated by special or sectional interests.

³¹ See Hall and Soskice (2001) on systematic differences in the political economies of groups of rich nations.

³² Olson’s scheme is compatible with there being an eventual policy reversal when the costs imposed by growth-retarding coalitions becomes too large. In our terms, this is an example of an endogenous change, and is discussed below, where we stress that the endogenous forces for regime change were strongly re-enforced by factors external to Australia.

³³ For example, Edwards and Valentine (1998) discuss the many inquiries into the monetary system over six decades.

However, there were two ‘constitutional’ changes to consider for what they could add to the explanation.

The special interest model of policy determination provides an example of a possible causal linkage between the more abstract rules of the political game and the nature of the policy regime. Australia, like the UK and US, but unlike many European countries, has an electoral system based on single-member geographically based electorates (denoted SM henceforth). The contrast is with a proportional representation (PR) system for the nation as a whole. The SM electoral arrangements have the effect that the spatial properties of policies have an especial salience in the Australian (and similar electoral systems). The idea of a marginal electorate plays no role in a PR system. Special interest coalitions arise around aggregated interests and often take the form of single-issue parties in PR systems but the interests in question need have no particular spatial distribution. Therefore, coalitions of interests around issues like the environment or ethnicity or industries that have a wide distribution of producers thinly represented in any area but of some significance in the aggregate will be more extensively represented in PR systems. Within the single-member electoral system, by contrast, special interests with the right kind of geographic concentration are likely to be disproportionately potent politically. Consequently, as a general proposition, geographically concentrated industries with a significant electoral presence in a small number of electoral districts are more likely to be granted tariff protection in the Australian system than industries that are more geographically dispersed – and than in PR systems.³⁴

The introduction of modified PR in the Senate (from 1949 on), together with the small number of states, suggests that Australia would not be as prone to these geographically specific factors as the US, especially perhaps since the emergence of a major third party in the Senate context. To suggest that the introduction of PR together with the rise of minor parties (e.g., the Democrats) contributed to the demise of tariff protection in the Australian case is perhaps to press the point too far.³⁵

Hansen (1990) emphasized the importance of customs tax revenue in the determination of US tariffs from 1829 to 1940 (as well as the distributional aspects central to the interest group explanation). It has been argued in the US case that passage of the constitutional amendment permitting the federal income tax paved the way for tariff reductions. The same argument could be entertained about the longer-term effects, on tariff protection, of the Commonwealth’s control of income tax after 1942. Certainly,

³⁴ McGillivray (1997), contrasting what industries obtained higher protection in the 1970s in Canada and the US, argued that in majoritarian systems with low party discipline, tariff protection will favour large, electorally dispersed industries.

There is also the possibility that, even with PR, geographically concentrated interests are more easily mobilised and, therefore, more effective politically than are dispersed interests.

³⁵ Two other factors should be mentioned. Proportional representation meant that it was uncommon for the party or coalition with a majority of seats in the House of Representatives to gain a majority in the Senate (even when all Senate seats are thrown open in a double dissolution). Secondly, increase in the size of the Senate has led to a reduction in the ‘quota’ of votes required for election, and so had encouraged minor parties.

Facilitating the change in Australia was the formation of the National Farmers Foundation, as an anti-tariff lobbying group. It put pressure on the National Party (formerly the Country Party) for a change in the Coalition policy. However, the subsequent rise of the populist One Nation party showed the strength of pro-tariff (anti-globalisation) sentiment among country voters: see Brennan and Mitchell (1999).

industry assistance of a revenue-using kind was offered by the reforming Hawke and Keating governments, to ease the transition to lower tariffs; and those governments also used the argument that increases in public spending on ‘the social wage’ (e.g., public hospitals) could offset the effects on working families of an engineered fall in real wages (said to be needed to ‘make Australian industry internationally-competitive’). The Coalition governments since 1996 have increased direct public payments to working families.³⁶

8. External Causes and Internal Responses

To the extent that these two ‘constitutional’ changes were specific to Australia, they can hardly comprise the main explanatory factors. To repeat, as Australia was not alone in its economic liberalization, we expect that there were common influences. The most important of these were changes in the external economic environment, which altered the costs and benefits of a protective policy. Internal Australian conditions determined how and when policy responded.³⁷

As to world-wide trends or external factors, and common causes of liberalization, what we have in mind include:

- Technological change—new products, new processes;
- Increased competitiveness in world markets for almost all goods and services (including capital), due to economic and policy changes, especially United States’ thrust towards liberalization of world markets;
- The reduced transportation costs, nationally and internationally;
- The increase in the relative significance of human over physical capital;
- Increased mobility in labour markets (both domestically and internationally).
- Asian industrializations after WWII.

There were profound consequences for the Australian development strategy. For some decades and especially in the multilateral trade negotiations of the 1940s through the 1960s, Australian governments pleaded that Australia was a special case, that of a rich but developing nation. The developmental strategy, pursued since the early years of federation, was to erect protective walls behind which ‘tariff factories’ would be attracted, bringing capital and expertise to employ native and immigrant workers in relatively labour-intensive industries. After the Second World War, continuation of the same strategy was very difficult if not impossible, for a number of reasons. In general, mostly exogenous factors increased the cost and reduced the rewards of the labour-intensive development strategy. Until the period of post-war reconstruction, the tariff and immigration programs were directed at Britain, as the chief source of population and of replaceable imports. As to population, it became an increasing struggle for Australia to recruit a sufficient number of British immigrants to fill its ambitious targets. In the

³⁶ The Howard government introduced a fairly general value-added tax (called the GST, or goods and services tax), which should have the effect of lowering the cost of taxation.

³⁷ See also Anderson (forth.).

international economy, the post-war ‘dollar shortage’ showed that, at least temporarily, the United States was the chief potential source of imports of goods and capital, not Britain. In addition, British trade policy was being re-oriented towards Europe and away from its former dominions. Also, in the 1950s and 1960s, the Japanese economic ‘miracle’ opened the prospect of a strong and growing market for Australian wool, coal and iron; while throwing doubt on any hopes that, in time, Australia would develop comparative advantage in a sizeable range of labour-intensive manufacturing products or processes. Such hopes were further dashed by the subsequent success of export-oriented industrialization in East Asia.

The displacement of the UK by Japan as Australia’s primary trading partner extended the life of a trade regime focused on bi-lateral and other restrictive trade agreements. Under Protection All Round, significant recompense for manufacturing tariffs and other burdens of the protective regime was offered to some primary producers, including subsidized delivery of many rural services and privileged access to British markets. Access to the booming Japanese market, therefore, permitted the continued affiliation of the Country Party to the protectionist regime and the continued access to special interest support that the protectionist regime embodied. However, the world trade framework that had given Japan access to developed country markets attracted other Asian Tigers—the economic burden rose, of attempting to maintain the size of the protected Australian import-competing sector.

Continuous and large reductions in transport and travel costs reinforced the economic message. The saving made by shopping offshore could offset the cost of a tourist’s airfare to Asia. The spectacle of a federal minister, caught smuggling a TV through Customs, eloquently communicated the problem to the general public. Exports of services, like education and tourism, were facilitated by the falling airfares.

In analyzing the change in regime, we must account for the feedback from outcomes or consequences, to policy itself. Economic and social outcomes are themselves influenced not only by the pressure of external, non-institutional events (like wars, or changes in technology and in world market conditions, as mentioned above), but also by the operation of the regime itself. These latter feedbacks, ‘internal contradictions’ as it were, are an integral part of the story. By the end of the 1950s, there were few voices arguing that further, rapid development could be heavily based on the closer settlement of the land (eg, small mixed farms, orchards or horticulture, especially if irrigated). What of manufacturing? Levels of protection of manufacturing were shown to be highest, in the late 1960s and early 1970s, in industries with the following characteristics: low average wages; high labour turnover; low capital-intensity; small scale of operation; low export share. (The metals processing industries were the exceptions to most of these generalizations.) These industries did not provide the obvious basis for further prosperity of a country with an average standard of living that had been shown to have fallen during the six decades of operation of the development strategy, from close to the top rank of OECD countries to tenth or lower, and likely to fall further. (In addition, notions of limits to sustainable growth of population, especially in cities, threw doubt on the goal of extensive development.)

It could be suggested, therefore, that the protective policy had worked; had changed Australian factor proportions and, therefore, comparative advantage. There are

two well-known economic models that validate some version of the infant industry/sector/economy argument for protection. Of more relevance to Australia was the model devised by Robert Mundell (1957). Earlier, Stolper and Samuelson, in formalizing the Heckscher-Ohlin model of comparative advantage, had shown circumstances under which a tariff would cause a rise in real wages of a labour-scarce economy, and thus gave comfort to the supporters of the ‘Australian case’ for protection. In the Heckscher-Ohlin-Samuelson model, international equalization of factor prices and goods price could be achieved by international factor flows or international goods flows. Mundell pointed out that if higher wages, induced by tariffs, attracted immigrants from labour-abundant countries (as the Australian authorities and economists believed), and did so as long as the tariff-induced differential in real wages existed, then removal of tariff protection need not undo the effects of protection. There is an ‘irreversible’ change in comparative advantage. Of course, all other things had not stayed constant in the meantime, and probably swamped this Mundell mechanism.³⁸

8. Pressure Groups

In our explanatory framework, non-institutional forces would impact on the policy regime via their influence on economic outcomes, and the feedback from economic outcomes to policy. We take it as a rough approximation that Australian political institutions operate so that political decision-making over ‘economic institutions’ reflect the broad public interest³⁹ — understood in terms of say the average level of economic well-being, supplemented with a particular concern to promote a tolerable distribution of that well-being across society. On that view, the prevailing economic institutions/policy regime reflect prevailing views about how best to achieve that overall objective. The policy regime also reflect perceptions as to what non-institutional forces are in play and how best to respond to them. As a specific example, in the world league table of economic well-being (measured in terms of GDP per head or some similar metric of average well-being) Australia was routinely depicted as having slipped from the very top in 1901 to thirteenth or lower by the 1970s (and to have roughly maintained that rank since). It was widely asserted that the relative decline was a consequence of the policy regimes that had been in place; and that the policy regime must respond to the changed external economic circumstances.

We have argued that the changes made from the early 1980s were made pressing (if not inevitable) by external circumstances, and represented reasonably optimal responses. What, then, were the influences of two kinds of special interest or pressure groups: economists, and business.

A familiar charge in Australia has been that, in the last few decades,

³⁸ The second model, which relies on increasing returns, is that devised by Paul Krugman (1991) and (tentatively) applied by him to the Canadian case, where it is more plausible than in the Australian case.

³⁹ See, for example, Brennan and Hamlin (1993 and 2000) for general argument to this effect. Although we are not here engaged in normative analysis as such, nevertheless, on the basis of a (perhaps heroic) picture of political processes, we can help ourselves to familiar propositions that the normative analysis of economic institutions/policy regimes offers.

economists' views about the consequences of policies have had a predominant weight in determining government decisions.⁴⁰ There clearly *have* been significant changes in prevailing professional views within economics over the period in question – and especially over the last fifty years, as the Keynesian predominance in Australia has eroded.⁴¹ The role played by Australian economists in this entire story, however, can easily be over-emphasized. As we see it, theirs was a supporting part, not a leading one. They gave comfort to tariff skeptics amongst politicians and leader writers. They provided estimates that showed that the rates of *effective* protection differed greatly from the nominal tariff rates set by the legislators and, in a few instances, were well over 100 percent. They showed that only a small percentage of jobs were in highly protected industries, and that labour turnover in those industries was high (and masked the effects of tariff changes). They ignored or dismissed “the Australian case” for protection as a means of economic development. They asserted, without much proof, that protection was a major reason why Australian material living standards had not risen as fast as those in some other rich countries. Certainly much was made of the fall in Australia's ranking in the OECD, and later within a broader set of countries in which set the Asian Tigers figured conspicuously.⁴² One agent of influence was Fred Gruen, economist, farmer, and close advisor of successive Labor governments. Gruen's own account (in Gruen and Grattan (1993)) of Labor's sharp tariff reductions modestly omits any reference to his own role, crediting rather the favourable exchange rate, the gradualist approach taken, and the use of adjustment assistance and export and other incentives.

Suppose that Australian political processes, rather than working systematically to promote the public interest, are best understood as a scramble over sectional and individual interests. The provision of ‘special interest’ support through the economic policy regime to some industry or group will often induce its own feedback effects on the level of political support for that policy.⁴³ There is a presumption, on these grounds, that it is easier to grant a special interest tariff than to abolish it. Yet almost all have been abolished. Ross Garnaut (1994), another Labor government adviser and an academic economist, in explaining the change, put considerable emphasis on Labor's creation and use of ‘corporatist’ bodies. This included Labor's nurturing of a ‘peak’ business organization. Specifically, Garnaut argues that the legislation of the Hawke government, forcing union amalgamations, strengthened within the labour movement the interest (and voice) concerned with very broad, even economy-wide effects of policy changes. Along these lines, Labor offset the sectional effects of Minister Button's industry plans by nurturing peak business bodies. Business interest groups influenced the content of the transition to a new regime, more than they determined that the change would occur.⁴⁴

9. Conclusions

⁴⁰ Articulated most notably in Michael Pusey's (1991) arresting book. Also Quiggin (1996).

⁴¹ See Groenewegen and McFarlane (1990).

⁴² Australian-based economists contributed to the ‘convergence’ literature, attempting to explain comparative rates of economic growth.

⁴³ It would clearly be hopelessly circular to define political influence by reference to those groups and individuals who happened to benefit from the current policy regime.

⁴⁴ McEachern (1991), especially in chapter 5, for a discussion of the divided and restricted nature of business influence in the Hawke government; also Kelly (1994).

Two features of the Australian experience are worth reiterating. The first is that the shift in overall policy regime is in a direction that is shared with most Western countries – especially the English speaking ones, but to some extent more broadly. The precise timing and the magnitude of the changes may have differed a little between locations.⁴⁵ Using the language of David Soskice’s “comparative capitalisms” analysis, there can be little doubt that, in the array of possible ‘capitalism models’, Australia has located itself closer to the UK/US ‘ideal type’ than to the Japanese or German (but note that the Japanese and German institutional arrays have shifted in a somewhat ‘liberal’ direction). This location influenced the character and timing of the change: under a Labor government, and using corporatist language.

The second (related) feature is that by and large since the mid-1980s the relevant changes had broad bi-partisan support, at least at the level of the leadership of the major parties, especially when in government. In a number of instances, the recommendation of public inquiries established by one side of politics were, to a large extent, accepted and implemented by governments of the other party. (For example, major capital market deregulation, personal income tax rate indexation, national competition policy.)⁴⁶ Despite political determination of terms of reference, and of decisions about implementation, the inquiry process does involve some ‘loss of control’ by the government of the day. It seems to us notable that much policy change owes its origins to committees of enquiry that were putatively non-partisan politically and operated independently from ordinary political process.

Of course, the extensive use of independent committees lends some support to the claim that economists have played a significant role in framing the basic policy regime. And support too for the conjecture that a primary element in explaining significant changes in that regime has been changes in the prevailing views of the economics profession. However, more extravagant claims to the effect that those prevailing views are to be thought of as ideologically extreme and/or are driven by extremely eccentric views of what the public interest entails are difficult to sustain. On the whole, with (perhaps significant but essentially second-order) differences between parties, the changes in Australia’s economic institutions seem to have enjoyed bi-partisan support. If economists have “captured” the policy debate, they have done so not only in Australia, but also across the Western world, and in a manner fully consistent with prevailing democratic arrangements.

There are nevertheless two rather different accounts of democratic institutions. One locates democratic constraints at the level of prevailing public opinion, as in the

⁴⁵ New Zealand, for example, is notable for having moved earlier, and further, and faster than Australia and from an even more ‘protectionist, anti-competitive’ starting point. And the distance moved and the rapidity of the change in New Zealand is arguably attributable to constitutional factors – not least the fact that New Zealand has a uni-cameral legislature. The rhetorical accompaniment of the changes also differed between locations. Thatcher’s British variant and Reagan’s American one were both marked by a kind of ideological defence that the Hawke-Keating policy realignment never appealed to, even though the character of the changes was comparable.

⁴⁶ Although the GST introduction was in the upshot a politically contested matter, the introduction of a reformulated broad-based indirect tax system had been at one time or another an agenda item for various ‘enquiry’ exercises since the Asprey Committee’s Report to the Whitlam Government in 1975.

median voter theorem account of changes in broad economic policy.⁴⁷ An alternative account relies on policy decisions being taken elsewhere than in arenas where there is party political influence. We have already mentioned this possibility in relation to the roles of bureaucracy and of ‘expert’ committees; and of narrow, sectional interest groups. We consider implausible a picture of democratic processes in which policy decisions might be made that differ markedly from prevailing views among the citizenry as to what is appropriate.

In summary, these two ‘facts’ – the international similarities in the directions of movement, and the apparent bi-partisan support for the direction of change – act as disciplines on any plausible first-round explanation of Australia’s economic institutions and the changes in them.

None of this denies the importance of economic ideas. The shift in policy regime towards greater reliance on market competition certainly matches a shift in the views of economists about both the advantages of market-like arrangements and the limits of non-market alternatives. But it is doubtful whether economists’ views played more than a peripheral role. The issue as economists have seen it is one of optimal response to changed economic circumstances – some specific to Australia and others of them merely Australian manifestations of world-wide trends. In our view, the change in Australia’s policy regime is to be explained as what both major political parties, and certainly most informed commentators, have regarded as an advantageous response to those changes. Governments reacted to, more than shaped, Australia’s economic environment.

⁴⁷ The median voter explanation does not require a corresponding shift in the views of all voters, but it cannot be sustained by changes in the preferred positions of just a few.

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