

Trade Liberalisation and the Australian Labor Party

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Abstract

The three most substantial decisions to reduce Australia's trade barriers – in 1973, 1988 and 1991 – were made by Labor Governments. Labor's policy shift preceded the conversion of social democratic parties in other countries to trade liberalisation. To understand why this was so, it is necessary to consider trade policy as being shaped by more than interest groups and political institutions. Drawing on interviews with the main political figures, including Gough Whitlam, Bob Hawke, Paul Keating and John Button, this article explores why the intellectual arguments for free trade had such a powerful impact on Labor's leadership, and how those leaders managed to implement major tariff cuts, while largely maintaining party unity.

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[T]he ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else.

John Maynard Keynes¹

Labor and Free Trade

In the space of a generation, Australia's tariff walls have been dismantled. From 1970 to 2001, the average level of industry assistance fell from over 30 percent to under 5 percent.² Yet in retrospect, what was perhaps most surprising was not that the era of protectionism came to an end – after all, this was a period in which tariffs were reduced across much of the developed world – but that in Australia, it was Labor Governments that took the lead in cutting industry protection.

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¹ *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), p. 383

² It is not possible to determine the exact magnitude of the drop, since the definition of the effective rate of assistance has also changed several times over this period.

Not only did Labor governments reduce industry protection, they also managed to avoid splitting their party over the issue. Given the importance of industry protection to both employer and union constituencies, it is interesting to consider how Australian Prime Ministers Gough Whitlam, Bob Hawke and Paul Keating avoided the fate of British Prime Minister Robert Peel – whose repeal of grain tariffs in 1846 ruined his own career, split the Conservative Party, and kept it out of power for most of the next thirty years.³

This paper argues that in order to fully understand Labor's tariff cuts, it is necessary to utilise not only the traditional frameworks through which trade policy has been understood – interest group politics and institutions – but also to consider the role of ideas. By taking account the beliefs of key decision makers, it is possible to form a more complete understanding of this important set of decisions.

At the outset, this paper discusses the competing theories of trade policy, before reviewing the background of Australian trade policy since the nineteenth century. Successive sections then deal with the 1973 tariff cut, the Fraser Government, the first five years of the Hawke Government, the 1988 tariff cut, and the 1991 tariff cut. Finally, the paper discusses the trade policy of Labor since 1991, and concludes by placing Labor's decisions to liberalise Australia's trade into an appropriate theoretical framework.

Three Theories of Trade Policy

One of the principal theories of the political economy of trade is interest group politics, or public choice theory, in which politicians respond to organised lobby groups offering votes,⁴ campaign contributions,⁵ or both.⁶ Even though the national economic cost exceeds the benefits, the politician faces a different set of costs and benefits.⁷ Why do politicians often choose tariffs? Dani Rodrik argues that the reason is because assisting lobby groups through tariffs is less politically costly than doing so through subsidies.⁸

In Australia, Mancur Olson has argued that public choice theory explains the growth of trade barriers in a nation where land was abundant and labour scarce. As manufacturing employers and trade unions both lobbied political parties for higher tariffs

³ A vigorous debate exists in the historical literature as to the motivations behind this decision: see for example Schonhardt-Bailey, C (ed). 1996. *Free trade: The repeal of the Corn Laws* (Bristol, England: Thoemmes Press 1996); O'Rourke, Kevin and Williamson, Jeffrey, *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy* (Cambridge, MA: MIT Press, 1999), pp. 77-92.

⁴ Hillman, A.L, *The Political Economy of Protection* (Harwood: Chur, 1989)

⁵ Magee, S.P., Brock, W.A., and Young, L, *Black Hole Tariffs and Endogenous Policy Theory* (Cambridge University Press: Cambridge, 1989)

⁶ Grossman, G.M and Helpman, E, "Protection for Sale", *American Economic Review*, 84 (1994): pp. 833-50

⁷ Coughlin, Cletus C., Chrystal, K. Alec, and Wood, Geoffrey E, "Protectionist Trade Policies: A Survey of Theory, Evidence, and Rationale" In Jeffrey Frieden and David Lake, *International Political Economy: Perspectives on Global Power and Wealth* (3rd ed) (New York: St Martin's Press, 1995), pp. 323-38

⁸ Rodrik, Dani, "Political Economy of Trade Policy" In G Grossman and K Rogoff, *Handbook of International Economics*, Vol III (Elsevier: Amsterdam, 1995), pp. 1457-94 at 1471-72

The result would be that frontiers initially free of cartels and lobbies would eventually become highly organised, and economies that initially had exceptionally high per capita incomes would eventually fall behind the income levels of European countries with incomparably lower ratios of natural resources to population.⁹

Another approach is to focus on the role of institutions, recognising that the structures within which politics is played out have an impact on the final outcomes. Researchers analysing tariff policy in the United States have tended to concentrate on the pressure points within the legislature for reform.¹⁰ But institutions can themselves have a direct impact on the policy process, by initiating or sustaining reform.¹¹ In Australia, this impact has come most from the body variously known as the Tariff Board, the Industries Assistance Commission, the Industry Commission and the Productivity Commission.

However, this article contends that interest groups and institutions are insufficient to understanding Australian trade policy, without a third factor – ideas – being taken into account. By this I mean that the beliefs and ideology of the central decision makers is an important factor in itself in shaping decisions. This argument is analogous to that of Judith Goldstein, who posits that much of United States trade policy cannot be understood without considering the effect that the ideology of liberalism had on American policymakers.¹² Likewise, Magnus Feldmann and Razeen Sally have argued that ideas are critical to understanding why post-Communist Estonia adopted a policy of free trade.¹³

Necessarily, there is a significant degree of overlap between these theories. Just as institutions affect the behaviour of interest groups, so interest groups can shape the political institutions (as we will see with the 1983 Accord between Labor and trade union movement). In addition, the bureaucracy – rather than being the driving force behind the dismantling of Australia's trade barriers – is perhaps better understood as having forged a set of ideas that

⁹ Olson, Mancur, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (New Haven: Yale University Press, 1982), p. 135

¹⁰ Alt, James E and Gilligan, Michael J, "The Political Economy of Trading States". *Journal of Political Philosophy*. 2 (1994): pp. 165-92; Alt, James E et al, "The Political Economy of International Trade: Enduring Puzzles and an Agenda for Inquiry". *Comparative Political Studies*. 29(6) (1996): pp. 689-717.

¹¹ Feldmann, Magnus and Sally, Razeen, "From the Soviet Union to the European Union: Estonian Trade Policy, 1991-2001", *The World Economy*. 25(1) (2002): 79-106. The blend of public choice and institutionalist theories has been termed by some political scientists "new institutionalism": March, James G. and Olsen, Johan P, "The New Institutionalism: Organizational Factors in Political Life". *American Political Science Review*. 78(3) (1984): pp. 734-49; Searing, Donald D, "Roles, Rules and Rationality in the New Institutionalism". *American Political Science Review*, 85(4) (1991): pp. 1239-60.

¹² Goldstein, Judith, "Ideas, Institutions, and American Trade Policy", *International Organization*. 42(1) (1988): pp. 179-217

¹³ Magnus Feldmann and Razeen Sally, "From the Soviet Union to the European Union: Estonian Trade Policy, 1991-2001". Feldmann and Sally also include a fourth factor, the role of crises in precipitating change. Although one could argue that inflation constituted a "crisis" in 1973, I have not dealt with the issue of crises as a policymaking catalyst. See also Feldmann, Magnus. "External Liberalization in Estonia and Latvia". *Government and Opposition*. 36(4) (2001): 537-58.

could then be adopted by the key political players. Drawing on interviews and contemporary sources, this article aims to broaden the conception of trade policymaking from theories of rational self-interest and bureaucratic influence to take appropriate account of ideas and values in the process.

Before turning to the tariff cuts of 1973, 1988 and 1991, it is worth briefly recounting a little of the history of industry protection in Australia.

From Deakin to McMahon: The Walls Are Built

In the 1890s, the greatest schism in Australian politics was between the Protectionists and the Free-Traders. From the late-nineteenth century¹⁴, Victoria had used tariffs as a means of promoting the growth of industry, whilst New South Wales had largely eschewed them. At Federation, a compromise was agreed upon. All trade between the colonies would be free, but a uniform tariff would be imposed upon imports into Australia, which would be the nation's major source of revenue.

In the early days of the Federal Parliamentary Labor Party, the caucus was split over protectionist tariffs. Some members argued that they would allow higher wages in the manufacturing sector, while others contended that tariffs merely served to drive up prices for consumers, whilst increasing profits for factory-owners. Initially, therefore, Labor representatives were allowed a free vote on the issue.¹⁵ But by 1905, the protectionists had prevailed, and Labor lent its support to Alfred Deakin's Protectionists, allowing them to form government. Deakin's policy, known as "the New Protection" required companies that were protected by tariffs to pay their employees "a fair and reasonable wage". Although such an explicit linkage was declared unconstitutional in 1908,¹⁶ Labor's support for protectionism had been entrenched, and this helped ensure that the twin tenets of industry protection and fair wages stood side-by-side in Australia for the next sixty years.

Yet despite the rhetoric of New Protectionism, the most significant increases in tariffs did not take place until after the beginning of World War I. While it is not possible to account for the many non-tariff barriers that applied in this period, Marks, Hettihewa and Sadeghi find that during the 1920s, the average tariff rate almost doubled.¹⁷ The Brigden Report in 1929

¹⁴ While Reitsma contends that the first protectionist tariff was introduced in Victoria in 1865 (A.J Reitsma, *Trade Protection in Australia* (Leiden, Holland: H.E. Stenfert Kroese, 1960), 7), Butlin claims that these early tariffs were really for revenue-raising purposes (Noel G. Butlin "Colonial Socialism in Australia, 1860-1900", in H.G. Aitkin (ed), *The State and Economic Growth* (New York: Social Science Research Council, 1959), p. 43). However, as Bulbeck points out, there can be little doubt that Victoria's tariff increases in the 1890s were protectionist (C. Bulbeck, "State and Capital in Tariff Policy" in Brian Head (ed) *State and Economy in Australia* (Melbourne: Oxford University Press, 1983), p. 225).

¹⁵ McMullin, Ross, *The Light on the Hill: The Australian Labor Party 1891-1991* (Melbourne: Oxford University Press, 1992), p. 46

¹⁶ *R v Barger; Cth v McKay* (1908) 6 CLR 41.

¹⁷ Marks, Andrew, Hettihewa, Samantha, and Sadeghi, Mehdi, "Trade policy, structural change and economic growth in Australia: a historical overview" in Paul, S (ed) *Trade and Growth: New Theory and the Australian Experience* (Sydney: Allen & Unwin, 1998), pp. 211-21

supported protection, yet warned that “an increase ... might threaten the standard of living”.¹⁸ This warning appears to have been lost on the Scullin and Lyons Governments, which doubled tariffs again between 1929 and 1932. Prompted by the United States passing the infamous Smoot-Hawley Act of 1930, which set an average tariff of around 50 percent, Australia, like many other developed nations, maintained high tariffs throughout the 1930s.

In the late-1940s, an international conference was held to discuss trade liberalisation and the possible creation of an International Trade Organisation. Australia was by no means an eager participant. As Prime Minister Ben Chifley told Parliament in 1948, “if the matter had been left to us, we should not have initiated a conference to discuss the lowering of world tariff barriers”.¹⁹ Yet he recognised that it was necessary to boost the economy of the United Kingdom, and felt that “Australia has suffered no real loss as a result of the agreements ... It has played its part in world affairs and has contributed to the assistance of Great Britain”.²⁰

By 1950, it became clear that attempts to create an International Trade Organisation had failed, principally because of the refusal of the United States Congress to ratify it. Nonetheless, the establishment of the General Agreement on Tariffs and Trade in 1948 meant that a mechanism existed through which multilateral trade could be governed. GATT negotiations on tariffs took place in 1947, 1949 and 1951. Australia, while participating in these negotiations, also set about using import licences to restrict imports. So common were import licences that for 15 to 20 years after the war, the tariff was essentially redundant as a protective device.²¹

These high levels of industry protection had a substantial impact on the Australian economy. Adopting Kevin O’Rourke and Jeffrey Williamson’s measure of globalisation – merchandise exports as a percentage of GDP – Australia in 1973 was less globalised than it had been in 1913. According to their figures, while merchandise exports made up 10.3 percent of Australia’s GDP in 1913, this had fallen to just 7.8 percent in 1950, and by 1973 was still only 9.5 percent.²²

Recent Trends in Industry Protection

Figure 1²³ graphs the average effective rate of assistance²⁴ for manufactured products, over the period 1968-69 to 2000-01. The effective rate of assistance is essentially a measure of

¹⁸ Glezer, L, *Tariff Politics: Australian Policy-making 1960-1980* (Melbourne: Melbourne University Press, 1982), p. 11

¹⁹ Chifley, Ben, *House of Representatives Hansard*, 26 February 1948, p. 254

²⁰ Chifley, Ben, *House of Representatives Hansard*, 26 February 1948, p. 255

²¹ Conlon, R, “Protection of Australian manufacturing: past, present and future” in Paul, S (ed) *Trade and Growth: New Theory and the Australian Experience* (Sydney: Allen & Unwin, 1998), pp. 222-37 at 223

²² Kevin O’Rourke and Jeffrey Williamson, *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy*, p. 30

²³ Sources for Figure 1: Industry Commission, “Assistance to agricultural and manufacturing industries: Information Paper” (Canberra: AGPS, 1995); Emmery, Mike, *Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation. Research Paper 7 (1999-2000)* (Canberra: Australian Parliamentary Library, 1999) (available at <http://www.aph.gov.au/library/pubs/rp/1999-2000/2000rp07.htm>)

tariff levels. Though it includes some direct subsidies, tariffs made up over 80 percent of effective assistance in 1983-84, and over 90 percent by 1989-90.²⁵

[Figure 1 about here]

Since breaks in the graph indicate changes in the way effective assistance has been measured,²⁶ care should be taken to only compare within series. As we will see, this is particularly important when considering the Fraser Government.

Whitlam and the 25% Cut

On 18 July 1973, without any public warning, Gough Whitlam's Labor government, which had come to power less than a year before, cut all tariffs by 25 percent. The only people who were consulted about the decision were Whitlam's Cabinet, and some members of the bureaucracy – sparking anger from many in the broader community, the trade union movement and the federal ALP caucus.

The chief motivation for the 1973 cut was the intellectual work of Alf Rattigan, Chairman of the Tariff Board since 1963. Rattigan was the first Chairman to challenge the protectionist ethos of the Board. One of his most powerful weapons was the Board's adoption in the late-1960s of Professor Max Corden's *effective rate of protection* measure (later to become the effective rate of assistance). In previous years, protection had been measured in terms of nominal protection - which was invariably much lower than effective protection.²⁷ Corden's measure not only allowed the Tariff Board to show that the level of trade protection was higher than had previously been thought, but also to demonstrate that whilst tariffs were a form of assistance to one group, they were a tax on others.²⁸

Building on Corden's research, Rattigan and the Tariff Board set about attempting to convince the public service, the quality press and both political parties of the need to reduce tariffs. Yet while they succeeded with sections of the bureaucracy and the media, the major political parties were less amendable to such arguments.²⁹

²⁴ The percentage change in returns per unit of output to an activity's value-adding factors due to the assistance structure.

²⁵ Emmerly, Mike, *Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation*

²⁶ For example, the 1989-90 Series takes account of the effect of excise taxes, while earlier series do not do so.

²⁷ Nominal assistance measures the percentage by which domestic producers' returns are increased via protectionism. Effective rate of protection takes into account the subsidy effect of assistance on an industry's output and the tax effect of assistance on its inputs.

²⁸ In subsequent decades, Corden's work was cited more frequently than that of any other economist in the Australian tariff debate: Towe J B, "Citation Analysis of Publications on the Australian Tariff Debate 1946-1991". Working Papers in Economics, No 188 (Sydney: University of Sydney, August 1993), pp. 8-9. Indeed Corden developed such a formidable international reputation for his work on trade that in 2001, he was awarded the rare honour of Companion of the Order of Australia for "service as a leading international economist".

²⁹ Powell, Adam, "Probity before Pragmatism: Alf Rattigan, 1911-2000". *Economic Record*. 76(234) (2000), pp. 301-04 at 302

Under the Coalition, the policy of “protection all round” had been championed by the Minister for Trade and Industry, John McEwen. In response to claims in parliament that protecting manufacturers was hurting Australia’s agricultural producers, McEwen had responded by pointing out that the government was compensating for this by providing other forms of assistance to farmers.³⁰ Many in the ALP apparently held similar views. Jim Cairns, who was to be the Minister for Overseas Trade and Secondary Industry at the time of the 1973 cut, wrote an article prior to the 1972 election in which he stated that tariffs “must never be merely an economic matter”, and stated firmly that “No ‘across the board’ changes are acceptable”.³¹

Among the interest groups, the manufacturing industry and the Australian Council of Trade Unions were the most vocal advocates of continued high tariffs.³² Both had made clear to the party the importance they attached to industry protection, and were to be outraged when the 25% cut was announced. On the other side of the debate were the peak lobby groups for the mining and pastoral industries – both of which were closely aligned with the Liberal Party and Country Party.³³ Their views on tariffs, it is safe to say, had little effect on Labor policymakers.

Given the strong views of the union movement and manufacturing sector, public choice theory would suggest that no policy change was likely. Yet against this must be set Whitlam’s personal ideology. Since the late-1960s, Whitlam had been the main champion of lower protection among his ALP colleagues. He pointed out that protectionism raised prices for consumers, and caused industries to become reliant on tariffs. Moreover, it was economically inefficient, since the real cost of protection was hidden from the taxpayer.³⁴ Finally, Whitlam argued, high levels of industry protection hurt workers in developing nations.³⁵

In 1973, Whitlam commissioned two key reports. The Crawford Report, delivered in June, recommended a new body, with much greater scope for wide-ranging review than the Tariff Board, be created in its place.³⁶ The Rattigan Report, delivered on 15 July, recommended a general tariff reduction.³⁷

³⁰ Bell, Stephen “State Strength and State Weakness: Manufacturing Industry and the Post-War Australian State” in Stephen Bell and Brian Head (eds). *State, Economy and Public Policy in Australia* (Melbourne: Oxford University Press, 1994), pp. 30-32

³¹ Cairns, Jim, “Labor and Tariffs” in John McLaren (ed). *Towards a New Australia* (Melbourne: Cheshire, 1972), p. 80

³² Tsokhas, Kosmas, *A Class Apart? Businessmen and Australian Politics 1960-1980* (Melbourne: Oxford University Press, 1984), p. 25.

³³ Kosmas Tsokhas, *A Class Apart? Businessmen and Australian Politics 1960-1980*, pp. 40, 42-46, 63-64, 68-69

³⁴ Whitlam, Gough, *The Whitlam Government 1972-1975* (Ringwood, Vic: Penguin, 1985), pp. 191-92

³⁵ Whitlam, Gough, “Democratic socialism and international economics” in John Langmore and David Peetz (eds), *Wealth, Poverty and Survival. Australia in the World* (Sydney: Allen and Unwin, 1983), p. 181

³⁶ Crawford, John, *A Commission to Advise on Assistance to Industries*. Prime Minister's Department (Canberra: AGPS, 1973) (the 1973 Crawford Report)

³⁷ Rattigan Alf, *Report on Possible Ways of Increasing Imports* (Parliamentary Paper No 152, 1973) (the Rattigan Report)

In addition to these intellectual arguments, there was the immediate pressure of inflation. On 17 July 1973, the Consumer Price Index for the previous quarter was announced. Prices had risen by a record 3.3 percent. The next day, Whitlam sought Cabinet's approval for a 25 percent cut in all tariffs. By promising generous compensation for those workers adversely affected by the cut,³⁸ Whitlam cleverly persuaded Cairns to introduce the proposal – thereby gaining some support from others in the Left. The tariff cut was also supported by Clyde Cameron, Minister for Labour, and a powerful voice in Cabinet. Eventually, Cabinet supported it, but only by the relatively narrow margin of 16-11. The cut was announced to the media that evening at 7 pm, and justified by Whitlam principally on the grounds that it was necessary in order to reduce inflation (though in reality, it is far from clear that tariff reductions are an effective means of controlling inflation). The following day, most newspapers strongly supported the decision.³⁹

The intellectual views of Whitlam (and a bare majority of his Cabinet) were critically important in motivating the 1973 tariff cut. Indeed, far from being politically pragmatic, the government suffered electorally for it. Although tariffs were only a minor issue in the 1974 general election, Whitlam was frequently criticised for the cut by political commentators and manufacturers.⁴⁰ On 26 June 1975, a by-election was held for the Tasmanian seat of Bass. In an area where tariff cuts had hurt the textile industry, the Whitlam Government suffered a 15 percent swing against it to lose the seat. The Bass by-election was perceived by many as an indication of Whitlam's unpopularity with the Australian electorate, and added to the sense of instability around the government that led up to its dismissal and election loss in November and December 1975.

³⁸ The government promised that any worker who was laid off as a result of the tariff cut would continue to receive “a weekly amount equal to his average wage in the previous six months until he obtains or is found suitable alternative employment”: Whitlam, Gough, “Statement by the Prime Minister, Mr E G Whitlam QC MP, and by the Minister for Overseas Trade and Secondary Industry, Dr J F Cairns MP, Wednesday 18 July 1973 at 7.00 pm. Tariff Reduction”. Reprinted in *House of Representatives Hansard*. 21 August 1973, pp. 167-71 at 167.

³⁹ On 19 July 1973, the *Australian Financial Review's* editorial described the tariff cut as “undeniably one of the most forthright and courageous economic decisions taken by any Australian Government”; *The Age* argued that “the move has to be applauded for its economic responsibility as well as its political audaciousness”; and the *Sydney Morning Herald* claimed it was “one of the boldest policy strokes of any Australian Government since Federation”. The cut was also welcomed by *The West Australian*, the *Adelaide Advertiser*, the *Sydney Telegraph* and the *Brisbane Telegraph*. The only unfavourable press reports came from the *Brisbane Courier Mail*, the *Melbourne Herald* and *The Australian*: Gruen, Fred, “The 25% Tariff Cut; was it a mistake?”, *Australian Quarterly*. 47(2) (June 1975), p. 19

⁴⁰ The Associated Chamber of Manufacturers argued that the 25 percent cut caused “indiscriminate damage and widespread disruption to industry” (quoted in Fred Gruen, “The 25% Tariff Cut; was it a mistake?”, p. 18). Others attacked it in even more hyperbolic terms. Don Whittington wrote that “Virtually everything that happened to the Australian economic scene in the next twelve months flowed from the tariff decision - loss of business confidence, decline in investment, falling production, and mass unemployment.”: Whittington, Don, *The Witless Men* (Melbourne: Sun Books, 1975), p. 102

The Fraser Government

Between the ALP's election loss in December 1975 and its next federal victory in March 1983, Australian protectionism remained fundamentally unchanged. Tony Lawson, former Chief Economist at the Industry Commission, agrees that the Fraser government was largely ineffectual on tariff reform, and claims that "they squandered many opportunities".⁴¹ Yet it is important to note that despite their strong criticism of the 25 percent tariff cut, the Coalition made no attempt to reverse it when they came to power. It seems that, faced with contrary pressures from manufacturers and farmers, the Fraser government felt that the safest course of action was to take virtually no action at all. From 1972-75, the Whitlam Government had reduced the average effective rate of assistance by around 8 percentage points. From the last financial year of the Whitlam Government (1974-75) to the last financial year of the Fraser Government (1982-83), the average effective rate of assistance increased by 1 percent. To see this, it is important to look within each of the two series that covered this period, as illustrated in Table 1.⁴²

Table 1: Average Effective Rate of Assistance to Manufacturing under the Fraser Government

Year	1974-75 Series	1977-78 Series
1974-75	27%	-
1977-78	26%	23%
1982-83	-	25%
Change	-1%	+2%
Total change, 1974-75 to 1982-83	+1%	

Additionally, industry assistance in some sectors rose sharply under the Fraser Government. For example, the average effective rate of assistance to motor vehicles nearly doubled, while assistance to clothing and footwear more than doubled.⁴³

Hawke: The First Five Years

In the first few years after the election of the Hawke Government, Australian industry protection remained at a fairly steady level. Within the caucus, there was a perception that the 1973 cut had damaged Labor electorally, and some MPs argued that tariff cuts were a

⁴¹ Interview with Tony Lawson (26 July 1994). As well as slowing the pace of tariff reform, others have argued that the Fraser government also had a tendency to impose tariffs in an arbitrary fashion: Emy, Hugh, *Remaking Australia. The State, the Market and Australia's Future* (Sydney: Allen and Unwin, 1993), p. 58; Weller, Patrick, *Malcolm Fraser PM. A Study in Prime Ministerial Power* (Melbourne: Penguin, 1989), p. 368

⁴² Sources for Table 1: Industry Commission, "Assistance to agricultural and manufacturing industries: Information Paper"; Mike Emmery, *Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation*

⁴³ Over this period, the average rate of effective assistance to the motor vehicles and parts sector increased from 54% to 79% (1974-75 Series), and then from 71% to 110% (1977-78 Series). Effective assistance to the clothing and footwear sector rose from 87% to 149% (1974-75 Series), and then from 141% to 220% (1977-78 Series): Industry Commission, "Assistance to agricultural and manufacturing industries: Information Paper"; Mike Emmery, *Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation*

political liability which the ALP could do without.⁴⁴ From 1982-83 to 1987-88, the average effective rate of assistance fell only 2 percentage points, with the main cuts occurring as part of the government's industry restructuring plans. These included the Steel Plan (1984-88), the Shipbuilding Plan (1984-89) the Passenger Motor Vehicles Plan (1985-92), the Heavy Engineering Adjustment and Development Program (1986-89) and the Textile, Clothing and Footwear Industries Plan (1986-96). Despite this, with an average effective rate of assistance of 19 percent, Australia's manufacturing sector in the mid-1980s was experiencing the last of its halcyon days of high tariff protection.

Another reason the Hawke Government hesitated to lower industry protection lay in the Accord between the ALP and the Australian Council of Trade Unions. On its face, the Accord clearly prevented any repeat of 1973, stating:

- there is no economic sense in reducing protection levels in the midst of high unemployment
- neither current economic conditions, expected future trends, nor balance of payments constraints justify reduction in protection [sic] in the foreseeable future
- changes to protection in the future will be determined within the planning mechanisms in which unions and business will play key roles⁴⁵

Yet despite this clear agreement with the Labor Party's most important interest group, there remained a powerful impetus for lowering trade barriers from a number of senior ministers in Hawke's Cabinet, including Paul Keating, John Button, John Dawkins, Bill Hayden and Hawke himself. By 1987-88, those in cabinet with "a strong commitment to internationalising the Australian economy"⁴⁶ strongly outnumbered those with protectionist tendencies. It was around this point that the government's focus began to shift from macroeconomic reform issues – the Accord, floating the dollar and reducing the budget deficit – to micro-economic reform.⁴⁷

In international terms, pressure to reduce tariffs was placed upon Australia by the OECD and the GATT (now the WTO), as well as those countries that had lowered their trade barriers.⁴⁸

⁴⁴ Clem Lloyd points out that following Labor's defeat in 1975, "there was a renewed emphasis on traditional Labor policies such as high protection for the industrial sector". Further, he claims that "[s]upport for high protection transcended factional lines, winning strong favour from the Left group and also from elements traditionally opposed to the Left": Lloyd, Clem, "The Federal ALP: supreme or secondary?" in Andrew Parkin and John Warhurst (eds). *Machine Politics in the Australian Labor Party* (Sydney: Allen and Unwin, 1983), p. 247

⁴⁵ Australian Council of Trade Unions and Australian Labor Party, *Statement of Accord by the Australian Labor Party and the Australian Council of Trade Unions Regarding Economic Policy* (1983), pp. 18-20

⁴⁶ John Button, *Flying the Kite. Travels of an Australian Politician* (Sydney: Random House, 1994), p. 7

⁴⁷ The fact that the dollar had devalued after its float also bolstered the case for tariff reductions: Ravenhill, John, "Australia and the Global Economy" in Stephen Bell and Brian Head (eds). *State, Economy and Public Policy in Australia* (Melbourne: Oxford University Press, 1994), pp. 75-97 at 90

⁴⁸ Jayasuriya, Kanishka, "Politics, Compensation and Adjustment: Dynamics of Structural Adjustment in Australia" in Andrew MacIntyre and Kanishka Jayasuriya (eds) *Dynamics of*

Some Australian trade negotiators felt that the nation could play a more influential role in the Uruguay Round of GATT talks (1986-94) if it came to the table with clean hands, in the form of lower tariffs.⁴⁹ Moreover, since the GATT had been far more successful in reducing industrial tariffs than agricultural tariffs, they knew that Australia needed to take the initiative if it was to expand overseas markets for its primary goods.

Were these international factors the key forces that led Labor to cut tariffs? Here it is important to distinguish cause from effect. Australia's activist trade agenda in the 1980s – creating the Cairns Group of agricultural free trading nations in 1986, and initiating the establishment of the Asia-Pacific Economic Cooperation forum in 1989 – was a logical corollary of the belief that more open markets would serve Australia better. The key political players of this period were aware of the economic principle that unilateral tariff cuts boost growth. Few subscribed to the mercantilist belief that a tariff cut is only beneficial if it is matched by a reciprocal cut by a nation's trading partners. Perhaps the best explanation is that put forward by former Primary Industries Minister John Kerin – that international pressures provided, at best, a post-factum justification for the tariff cut that was to come.⁵⁰

The 1988 Tariff Cut

When it came to the 1988 decision, the key body that shaped the final outcome was the Industries Assistance Commission (IAC), formerly known as the Tariff Board. Having been initially surprised at the willingness of the Hawke government to engage in economic reform, the IAC set about producing a range of reports which advocated reducing tariffs. As Keating recalls, the IAC were important in persuading the government that all tariffs should be reduced by the same amount, rather than on a proportionate basis.⁵¹ In this sense, the 1988 cut “flowed directly from the earlier work of the IAC”.⁵² Just as in 1973, the intellectual force of the body's arguments were one of the key forces behind the 1988 tariff cut.

By comparison, arguments from the union movement were given fairly short shrift. In part, this stemmed from the factional makeup of the ALP. While manufacturing unions tended to be allied with the Left of the ALP, the key proponents of tariff cutting (Hawke, Keating and Button) were all members of the Centre or Right factions. The only union that managed to successfully block a proposal was the Textiles, Clothing and Footwear Union of Australia (TCFUA), which persuaded the government not to implement Industry Minister John Button's scheme to accelerate the tariff cuts set out in the 1986 TCF Industries Plan.⁵³ By

Economic Policy Reform in Southeast Asia and the Southwest Pacific (Singapore: Oxford University Press, 1992), pp. 198-217

⁴⁹ Evans, Gareth and Grant, Bruce, *Australia's Foreign Relations in the World of the 1990s* (Melbourne: Melbourne University Press, 1991), pp. 115-19

⁵⁰ Interview with John Kerin (30 August 1994)

⁵¹ Interview with Paul Keating (21 September 2001)

⁵² Quoted in Industries Assistance Commission, *Annual Report 1988-89* (Canberra: AGPS, 1989), p. 15

⁵³ Under the 1986 TCF Plan, 1996 would see tariffs phased down to 60 percent for clothing, 50 percent for footwear and 40 percent for textiles, and quotas phased out entirely. The May 1988 statement changed the Plan so that by 1995, the end tariff rate for each section of the industry would be 5 percent lower and all quotas would be abolished: Textile, Clothing and Footwear Union of Australia, *Textile, Clothing and Footwear Industries in Crisis*, TCF Unions Federation Submission on Industry Policy, 19 February 1992, pp. 4-5. Button had

directly lobbying Hawke, and placing pressure on the Labor caucus,⁵⁴ the TCFUA managed to convince the Government that the electoral backlash which would flow from the proposed cuts was too great.

The views of business, likewise, were not particularly influential. One of the chief problems business lobbyists faced during the 1980s was their “organisational diversity and fragmentation”.⁵⁵ Consequently, a multiplicity of groups claimed to speak on behalf of the business sector. Moreover, some of these bodies found themselves split internally on the issue of tariffs.⁵⁶ Ultimately, most of the campaigning against the proposed reductions was carried out by the TCF Council of Australia - who were far less persuasive than a more broadly based business lobby group could have been.⁵⁷

As in 1973, many in the business community and union movement opposed trade liberalisation, while bureaucrats in the economic agencies of government helped to forge the intellectual arguments that were adopted by Labor’s leadership. Whereas Whitlam drove the 1973 decision, three major players were responsible for the 1988 cut – Industry Minister John Button, Treasurer Paul Keating and Prime Minister Bob Hawke. In order to understand the role they played, I draw on interviews with each of these men. While there is doubtless the potential for interviewees to overplay their role, this evidence helps better understand the puzzle of why they reached a decision at odds with the ALP’s traditional interest groups.

John Button, a Victorian Senator from 1974 to 1994, served as Industry Minister in the Hawke Government. Unlike others in the first Hawke ministry, Button claims that when Labor government came to power in 1983, he did not have any firm views about industry protection. His wish to serve as Industry Minister came not from an overwhelming desire to reduce tariffs, but rather from a general belief that changes had to occur in the manufacturing sector.⁵⁸ Yet in April 1983, he troubled manufacturers and unionists alike when he made it clear that he was willing to countenance changes to Australia’s levels of industry protection. In his address to the National Economic Summit, Button argued that “[i]n dealing with long-

been seeking more radical cuts - of around 10 percent for each section of the TCF industry: Interview with John Button (5 August 1994).

⁵⁴ Milne, Glenn and Stekete, Mike, “Keating to hit private schools, put tax on super”. *Sydney Morning Herald*, 25 May 1988, pp. 1,6 at 6

⁵⁵ Matthews, Trevor, “Employers’ Associations, Corporatism and the Accord: The Politics of Industrial Relations” in Stephen Bell and Brian Head (eds). *State, Economy and Public Policy in Australia* (Melbourne: Oxford University Press, 1994), pp. 194-224 at 207

⁵⁶ For example, the Business Council of Australia was divided on the issue of industry protection, so refused to take a stance on the 1988 cuts: Interview with John Button; Bell, Stephen and Head, Brian, “Australia’s Political Economy: Critical Themes and Issues” in Stephen Bell and Brian Head (eds), *State, Economy and Public Policy in Australia* (Melbourne: Oxford University Press, 1994), p. 16

⁵⁷ The TCF Council organised a series of demonstrations against John Button, but these were largely ineffective, since Button’s mind was already made up on the issue. The TCF Union was more successful because it was able to influence other key Labor Party politicians - particularly those with marginal seats.

⁵⁸ Interview with John Button

term reconstruction issues... there should not be too narrow a focus on the issue of protection".⁵⁹

His own views on the topic, however, were really only developed after he had spent around ten months in the portfolio. In early 1984, Button travelled extensively through Europe, meeting with a range of Industry Ministers and company executives.⁶⁰ But the country which made the most impact on his thinking was Sweden.

Sweden was especially influential with me - I saw all those successful companies with no tariffs. They're big traders, the Swedes, and they were doing very well at that time. So I guess that was fairly formative for me.⁶¹

Sweden was, in many ways, a suitable model for Australia. In the early 1980s, it had a similar macro-economic profile to Australia, a higher deficit, a similarly high inflation rate and rising unemployment.⁶² Yet unlike Australia, Sweden had already gone through a significant phase of industry restructuring. Button felt that Australia should follow its lead.⁶³

It helped me to understand better where industry was going internationally - up-market, higher value-added, higher technology. And I saw we had to do something about those sectors as well. So all the research and development incentives really came out of that - being what they call in Europe "transitional" measures for the highly protected industries. They used to talk in Europe about a "hard mattress". You needed a hard mattress if you were going to restructure industries. It's a good phrase.⁶⁴

By 1984, Button had begun advocating substantial reform in a number of industry sectors. At that year's ALP National Conference, he argued that manufacturing needed to be restructured

⁵⁹ Button, John, "Address to the National Economic Summit" (quoted in *Business Review Weekly*, 13 August 1983). As an indication of the breadth of views at the National Economic Summit, the Managing Director of BHP, Brian Loton, argued that some industries would need *higher* tariffs if they were to survive: Mockridge, Tom and Short, John, "Industry, Govt are at odds over tariffs". *Sydney Morning Herald*, 13 April 1983.

⁶⁰ Button visited or had discussions with senior executives from Philips Industries of Holland, British Leyland, Western Helicopters of the UK, British Aerospace, France's Airbus Industries, Nestles in Switzerland, Daimler Benz in Germany, Sweden's Volvo, Saab Scania in Sweden and the Swedish Space Corporation. In addition, he saw representatives of the OECD, GATT, the ILO and UNCTAD: Capling, Ann and Galligan, Brian, *Beyond the Protective State. The Political Economy of Australia's Manufacturing Industry Policy* (Melbourne: Cambridge University Press, 1992), p. 128

⁶¹ Interview with John Button

⁶² Ann Capling and Brian Galligan, *Beyond the Protective State. The Political Economy of Australia's Manufacturing Industry Policy*, p. 128

⁶³ Although Button was influenced by many aspects of Swedish industrial policy, one areas in which he did not follow the Swedish example was in consulting with the trade union movement - which occurred extensively in Sweden (Ann Capling and Brian Galligan, *Beyond the Protective State. The Political Economy of Australia's Manufacturing Industry Policy*, p. 128), but rarely in Australia.

⁶⁴ Interview with John Button. Button gives a thorough account of his visit to Sweden in *Flying the Kite. Travels of an Australian Politician*, pp. 70-80.

in order to make it more export-oriented and internationally competitive.⁶⁵ At the 1986 ALP National Conference, he denounced opponents of tariff cuts in the textile industry,⁶⁶ earning himself a stinging rebuke from union delegate John MacBean.⁶⁷

Button's preferred strategy was to approach the problem by dealing first with specific industries⁶⁸, and then in 1988 implementing a general tariff cut. His belief that tariff cuts were necessary in the long-term stemmed primarily from his desire to reform Australian industry. For Button, the key issue was not economic efficiency - although he was sympathetic to neoclassical economic theory, it did not play a major part in his thinking. Instead, he saw the main problem as one of "restructuring and revitalising manufacturing industry".⁶⁹ Button believed that one of the main issues was the effect that high levels of protection had on management.

For the whole of my time as Industry Minister I was less than enchanted by the quality of Australian management and largely attributed this to the "culture" of protection in which they had been cocooned. I actually remember using an "iron lung" analogy for protection in the motor vehicle industry.⁷⁰

Another critical actor in the 1988 tariff cut was Treasurer Paul Keating. Having entered Parliament in 1969, Keating's views on tariffs were largely forged during his time as Labor's spokesperson on Minerals and Energy, from 1975 to 1982. According to Keating, it was during this period that he formed his views on trade policy.⁷¹ An important event for him was the publication in 1976 of a paper by Professor Robert Gregory, which argued that a rise in exports in the resource sector could force an appreciation of the real exchange rate, leading to a fall in overall exports.⁷² The "Gregory Thesis" was taken up by people on both sides of

⁶⁵ Button, John, "Speech moving adoption of the Industry Development Platform at the ALP National Conference", Transcript of the 36th National Conference (Canberra: Australian Labor Party, 1984), pp. 770-73 at 772

⁶⁶ Button, John, "Speech on Industry Development at the ALP National Conference", Transcript of the 37th National Conference, (Canberra: Australian Labor Party, 1986), pp. 186-91 at 190

⁶⁷ MacBean, John, "Speech of the mover in reply on a TCF Resolution at the ALP National Conference". Transcript of the 37th National Conference (Canberra: Australian Labor Party, 1986), pp. 191-92

⁶⁸ In describing his attitude to reform, Button stated that "I almost had a checklist... I looked at industry sector-by-sector and thought: 'How do we make this one work?'" (Interview with John Button). The result was that between 1983 and 1988, industry plans were formulated for the steel, passenger motor vehicle, shipbuilding, heavy engineering and the textile, clothing and footwear industries: Button, John, "Industry Measures - Ministerial Statement". *Senate Hansard*, 25 May 1988, pp. 2916-22 at 2917.

⁶⁹ Interview with John Button.

⁷⁰ Interview with John Button

⁷¹ Interview with Paul Keating

⁷² Gregory, Robert G, "Some Implications of the Growth of the Minerals Sector" *Australian Journal of Agricultural Economics*, 20 (1976): pp. 71-91. The Gregory Thesis was known elsewhere as "Dutch Disease", and became a serious issue for British policymakers in the early-1980s, as North Sea oil forced Sterling to soar, reducing manufacturing exports: "The Natural Resources Myth". *The Economist*, 23 December 1995, pp. 101-103; Qiang, Ye, "The

Australian politics as an argument for higher levels of protection for the manufacturing sector. In the Labor Party caucus economics committee, Keating argued against the use of tariffs to support manufacturing, and although these discussions did not flow through to immediate changes in ALP policy, they helped solidify Keating's thinking. In 1985, two years after becoming Treasurer, he addressed the inaugural Whitlam Conference of Labor Historians, and argued that:

The government has also been concerned to... ensure that where protection or assistance is provided, it is to enable industry structure and performance to improve rather than to preserve the feather-bedded status of those in the sector... [Tariff reform is] of the utmost importance and will continue to demand very considerable government attention.⁷³

It is perhaps not surprising that Keating's speech at the time of the 1988 cut placed greater emphasis on the benefits of free trade and international competition than do the corresponding speeches by Button⁷⁴ and Hawke.⁷⁵ Keating argues that his views on trade policy flowed from his belief that the various pillars of the "Australian Settlement" (or "Australian Defence Model")⁷⁶ needed to be dismantled.⁷⁷ By 1988, he had been for a true believer on the benefits of reducing industry protection for over a decade. Indeed, Keating firmly rejects the view that the tariff cut flowed from a more economically rationalist bureaucracy,⁷⁸ citing the importance of just only a few key individuals – in particular, Tony Cole and Don Russell.⁷⁹

Of the three key political players involved in the 1988 and 1991 tariff cuts, Prime Minister Bob Hawke's commitment to tariff cuts undoubtedly predates the beliefs of Button and Keating. Hawke came to believe that cuts were necessary when he studied economics at the University of Western Australia in 1951-52.⁸⁰ Thus, as he puts it, "I was intellectually a free trader from my earliest thinking days".⁸¹

Economy-Wide Effects of Expansion of the Minerals Sector", Working Paper 99.08 (Perth: Department of Economics, University of Western Australia, 1999).

⁷³ Keating, Paul, "The Traditions of Labor in Power: Whitlam and Hawke in the Continuum". Address to the Inaugural Whitlam Conference of Labor Historians, 1 December 1985, p. 16

⁷⁴ John Button, "Industry Measures - Ministerial Statement", pp. 2916-22

⁷⁵ Hawke, Bob, "Speech by the Prime Minister. CEDA Luncheon. Melbourne", 27 May 1988

⁷⁶ There are various definitions of the Australian Settlement, but the most commonly cited is Paul Kelly's, who defines it as five pillars – the White Australia policy, industry protection, wage arbitration, state paternalism and imperial benevolence: Kelly, Paul, *The End of Certainty. The Story of the 1980s* (Sydney: Allen and Unwin, 1992). See also Hancock, WK, *Australia* (Sydney: Jacaranda, 1961 [1930]) and Hagan, Jim, *The History of the ACTU* (Melbourne: Longman Cheshire U331.880994/46, 1981), p. 14.

⁷⁷ Interview with Paul Keating.

⁷⁸ Pusey, Michael, *Economic Rationalism in Canberra: A Nation Building State Changes its Mind* (Cambridge: Cambridge University Press, 1991)

⁷⁹ Interview with Paul Keating

⁸⁰ In 1951-52, Hawke completed a Bachelor of Arts, majoring in economics. For several months in 1952, he also tutored in economics at the University of Western Australia: Hawke, Bob, *The Hawke Memoirs* (Melbourne: William Heinemann, 1994), pp. 17-23.

⁸¹ Interview with Bob Hawke (7 October 1994)

By the time of the 1973 tariff cut, therefore, Hawke was placed in a difficult position. He was President of the Australian Council of Trade Unions, and was frustrated that Whitlam did not consult him before announcing the decision. His philosophical belief in the need to reduce industry protection meant that he “agreed with the principle of the decision”,⁸² and he issued a press statement cautiously defending it.⁸³ As a result, he became the target of some harsh criticism from unions affiliated to the ACTU.⁸⁴

Hawke next came in contact with the issue of industry protection when he served on the two main committees to look into the issue during the 1970s - the Jackson Committee⁸⁵ and the Crawford Committee.⁸⁶ Both reports were essentially ignored by the Whitlam and Fraser governments, but Hawke was nonetheless impressed by the calibre of those who worked with him on the committees.

From my invaluable experience on these committees I came to a detailed understanding of both the weaknesses of, and the opportunities for, Australian manufacturing industry. I was determined, if given the opportunity, to put that knowledge to good effect.⁸⁷

Hawke briefly touched on the issue of lowering industry protection in his 1979 Boyer Lectures.⁸⁸ However, when it came to the 1983 election, he was careful not to give the electorate any hint that he might reduce tariffs. Speaking only a few weeks before the election, he assured voters that “[u]ntil this crisis is overcome, there will be no reduction of

⁸² Bob Hawke, *The Hawke Memoirs*, p. 64

⁸³ Hawke’s press statement argued that “any unemployment effects of the tariff cut will be offset by such factors as the upsurge in consumer demand and export demand, increased government expenditure, the existence of unused tariff, and the fact that there is ample room to squeeze the profit-competing producers in Australia”: D’Alpuget, Blanche, *Robert J Hawke. A Biography* (Ringwood, Victoria: Penguin Books, 1984), p. 226.

⁸⁴ Lindsay North, Federal Secretary of the Textile Workers' Union, was particularly sharp in his criticism. Referring to Hawke's status as President of the ACTU and Federal President of the ALP, he said: “Mr Hawke's main job is to look after the trade union movement. He cannot put on one hat in one room and then change hats when he goes to another room. I feel he could be wearing his ALP hat when he defends government action in cutting tariffs. He has a choice of which hat he wears and today he is wearing the wrong hat.” (quoted in Hurst, John, *Hawke PM* (Sydney: Angus and Robertson, 1983), p. 139)

⁸⁵ Jackson, Gordon et al, *Policies for Development of Manufacturing Industry* (Canberra: AGPS, 1975) (the Jackson Report)

⁸⁶ Crawford, John, *Report of Study Group on Structural Adjustment*. Australian Government Report, Vols I & II (Canberra: AGPS, March 1979) (the 1979 Crawford Report)

⁸⁷ Bob Hawke, *The Hawke Memoirs*, p. 82. As early as 1984, Hawke acknowledged the importance of the Crawford Committee in shaping his belief in the need for “a fresh approach to Australian industry assistance policy”: Bob Hawke, *The Hawke Memoirs*, p. 127.

⁸⁸ In the Boyer Lectures, Hawke warned that “[a]s we sell our mineral and rural products to the rapidly expanding economies of our area, they will demand greater access to our markets for an increasingly wide range of manufactured goods”: Hawke, Bob, *1979 Boyer Lectures. The Resolution of Conflict* (Sydney: ABC Publishing, 1979), pp. 42-43

existing protection levels”.⁸⁹ Yet by late-1983, he was expressing some ambivalence about existing tariff rates - arguing that protection had “dulled the entrepreneurial spirit and reduced the competitive pressures for high performances by a number of Australian manufacturers”.⁹⁰ In early-1984, Hawke finally chose to make his position clear:

There is quite wide appreciation within Australia that it will be necessary gradually to reduce Australian protection levels if we are to achieve the goal of a more efficient, export-oriented manufacturing sector.⁹¹

Hawke’s employment of Ross Garnaut as his senior economics adviser from 1983 to 1985 was further proof of his intention to reduce industry protection. Hawke knew Garnaut from having worked with him on the Crawford Committee in 1979, and in choosing him was well aware that Garnaut held staunchly anti-protectionist views.⁹² Like Hawke, Garnaut’s belief in the necessity of tariff cuts was grounded in his wish to see Australia play a larger role in the international arena.

The 1988 tariff cut was initially announced by Keating, in the House of Representatives. However, Hawke’s firm belief in the decision was evident when he addressed a group of businesspeople two days later, and argued passionately in favour of the cut. At the luncheon, he claimed that the May Statement was “the most wide ranging set of fundamental economic reforms ever presented in one statement in Australia”, and that the tariff cuts were about fairness, equity, enhancing Australia’s international competitiveness and improving the state of Australian industry.⁹³

If Button’s belief in tariff cuts stemmed from a desire to reform industry, and Keating’s from a desire to create a stronger economy, Hawke was probably most influenced by a wish to see Australia play a greater role internationally. As Hawke explains it:

I’m basically an internationalist, so as I said in the very first days of becoming Prime Minister, “Australia’s future involves becoming more enmeshed with Asia”. Now you can’t pursue that policy of enmeshment behind high tariff walls.⁹⁴

The intensity of Hawke’s feeling on the issue is best summed up by Stephen Mills, Hawke’s speechwriter from 1986-91, who has claimed that “[i]n Hawke’s mind, resurgent

⁸⁹ Hawke, Bob, “National Reconciliation: The Policy of the ALP”, Delivered on 16 February 1983, in John Cook (ed) *National Reconciliation: The Speeches of Bob Hawke*. (Sydney: Fontana/Collins, 1984), p. 23

⁹⁰ Hawke, Bob, “Industry and New Technology”, Delivered on 26 September 1983, in John Cook (ed) *National Reconciliation: The Speeches of Bob Hawke* (Sydney: Fontana/Collins, 1984), p. 106

⁹¹ Hawke, Bob, “Australia and Japan”, Delivered on 3 February 1984, in John Cook (ed) *National Reconciliation: The Speeches of Bob Hawke* (Sydney: Fontana/Collins, 1984), p. 123

⁹² Bob Hawke, *The Hawke Memoirs*, p. 166

⁹³ Hawke, Bob, “Speech by the Prime Minister. CEDA Luncheon. Melbourne”, p. 1

⁹⁴ Interview with Bob Hawke

protectionism, if not adequately restrained, threatened the very peace and security of the world".⁹⁵

To each of the key players - Button, Hawke and Keating – the 1988 cuts were merely a preliminary reduction. Each believed that tariffs in Australia needed to be reduced to negligible levels, and whilst the 10 percent and 15 percent targets were by no means generous, there was certainly room for further reductions. In less than three years, the issue was to return to the centre of the policy stage.

The 1991 Tariff Cut

The industry statement announced on 12 March 1991 has been described by Paul Kelly as "an historic milestone... [which] effectively terminated Australia's century of Protection".⁹⁶ In general, the timetable of tariff reductions set down by Hawke, Keating and Button pleased even the hardliners in the Industry Commission (IC) (as the IAC had been renamed).⁹⁷ Many in the IC were amazed that, nearly eighteen years after Whitlam's 25 percent cut, a Labor government had announced that protection for most industries was to be phased down to negligible levels by 1996.

On one interpretation, the reductions were no more than a logical extension of the 1988 tariff cuts.⁹⁸ Yet the economic environment had changed. Whereas 1988 had been a boom time, the Australian economy in 1991 was officially in recession – affected by a worldwide slump rated as the worst since the Great Depression of the 1930s. In 1990-91, the Australian unemployment rate hit 8.4 percent, with a quarter of those unemployed classified as long-term unemployed.⁹⁹ Over the next two years, the unemployment rate would rise to 11 percent.

As in 1988, most economics journalists continued to favour tariff cuts;¹⁰⁰ Australian broadsheets had been advocating further reductions in protectionism over the intervening three years.¹⁰¹ There was also widespread support in the bureaucracy for additional cuts.¹⁰² At

⁹⁵ Mills, Stephen, *The Hawke Years. The Story from the Inside* (Ringwood: Viking, 1993), p. 186

⁹⁶ *The End of Certainty. The Story of the 1980s*, pp. 665-66

⁹⁷ Whilst the IC was satisfied with the general program of tariff cuts put in place in 1991, there was nonetheless some disquiet about the slower pace of tariff reductions planned for the Textile, Clothing and Footwear (TCF) and Passenger Motor Vehicles (PMV) sectors: Interview with Tony Lawson; Industry Commission, *Annual Report 1992-93* (Canberra: AGPS, 1993), p. 11.

⁹⁸ Announcing the cuts on 12 March 1991, Keating pointed out that: "Today's statement completes the program announced in the economic statement of May 1988": Keating, Paul, 1991, "Building a Competitive Australia - Taxation Measures". *House of Representatives Hansard*, 12 March 1991, pp. 1770-75 at 1771.

⁹⁹ Australian Bureau of Statistics, *Australian Social Trends 1994* (Canberra: ABS, 1994)

¹⁰⁰ Castles, Francis G and Stewart, Jenny, "Towards industrially sustainable development? Industry policy under the Labor government" in Ian Marsh (ed). *Governing in the 1990s: An Agenda for the Decade* (Melbourne: Longman Cheshire, 1993), pp. 202-03

¹⁰¹ When the 1988 cut was announced, most of the quality press called for more savage cuts, and for the cuts to be implemented more quickly.

the international level, Australia was making a strong case for free trade at the Uruguay Round of GATT talks.¹⁰³

At the same time as the voice of those advocating tariff cuts was becoming louder, the direct opposition to cuts was becoming more muted. As between the ALP and the union movement, those provisions in the Accord that ostensibly limited tariff cuts were now effectively ignored. And instead of arguing for higher protection, or even for the maintenance of existing tariffs, unions and business lobbyists began to advocate the replacement of border protection with targeted assistance to encourage export-oriented industries.

Such arguments had appeared prior to the 1988 cut - most notably in *Australia Reconstructed*.¹⁰⁴ But between 1988 and 1991, virtually all arguments were phrased in such terms. The most notable of these was an ACTU report, entitled *Australian Manufacturing and Industry Development*,¹⁰⁵ which drew heavily upon *The Global Challenge*.¹⁰⁶ Although the ACTU's report endorsed a reduction in tariffs in the long-term, ACTU Assistant Secretary, Laurie Carmichael, emphasised that the "ACTU must oppose further tariff

¹⁰² Whilst there has been support for cuts within the Productivity Commission (PC) and its predecessor bodies since 1967, by the 1990s this attitude had spread to the key government departments as well. One factor in this was that many PC chairpeople subsequently went on to head various departments. Departments which have been headed by an ex-PC chairperson include Prime Minister & Cabinet, Treasury, Finance, Immigration and Employment, Education & Training (Interview with Tony Lawson).

¹⁰³ See Gareth Evans and Bruce Grant, *Australia's Foreign Relations in the World of the 1990s*, pp. 114-28.

¹⁰⁴ Australian Council of Trade Unions and Trade Development Council, *Australia Reconstructed. A Report by the Australian Mission Members to the ACTU and the TDC* (Canberra: AGPS, 1987). Another such report was Metal Trades Unions, *Policy for Industry Development and More Jobs* (Melbourne: MTU, 1984).

¹⁰⁵ Australian Council of Trade Unions, *Australian Manufacturing and Industry Development: Policies and prospects for the 1990s and in the 21st Century* (Melbourne: ACTU, 1990)

¹⁰⁶ Australian Manufacturing Council, *What Part Will Manufacturing Play in Australia's Future? Interim Report of the Pappas Carter Evans & Koop/ Telesis Study* (Melbourne: Australian Manufacturing Council, October 1989); Australian Manufacturing Council, *The Global Challenge: Australian Manufacturing in the 1990s. Final Report of the Pappas Carter Evans & Koop/ Telesis Study* (Melbourne: Australian Manufacturing Council, July 1990); Australian Manufacturing Council, *The Global Challenge: Australian Manufacturing in the 1990s. Summary Report of the Pappas Carter Evans & Koop/ Telesis Study* (Melbourne: Australian Manufacturing Council, December 1990). From a union point of view, see also Easson, Michael, "Sunbeams, Cucumbers and Industry Policy" in Michael Costa and Michael Easson (eds). *Australian Industry. What Policy?* (Sydney: Pluto Press, 1991) and McCreadie, Sue, "Protection Racket?" *Australian Left Review* 116 (April 1990): pp. 16-19. From an academic viewpoint, see Ewer, Peter et al, *Politics and the Accord* (Sydney: Pluto Press, 1991); Matthews, Trevor and Ravenhill, John, "Is Unilateral Trade Liberalisation the Answer?". Working Paper 1990/5 (Canberra: ANU, 1990); Matthews, Trevor and Ravenhill, John, "The Economic Challenge: Is Unilateral Free Trade the Correct Response?" in J L Richardson (ed). *Northeast Asian Challenge: Debating the Garnaut Report* (Canberra: Australian National University, 1991).

reductions unless they are part of a total package of promotional measures and structural adjustment assistance”.¹⁰⁷

For Hawke, Garnaut was again an important catalyst behind the 1991 cut. In 1989, he produced a report entitled *Australia and the Northeast Asian Ascendancy*,¹⁰⁸ which maintained that Australia should aim to achieve zero tariffs in all industries by the year 2000.¹⁰⁹ As with the 1988 cut, Hawke argues that “Garnaut was always, as far as I was concerned, the most compelling advocate of that course of action [ie. reducing protectionism]”.¹¹⁰

Although institutionalist theory explains the 1991 cut better than the 1973 or 1988 cuts, it still does not account for the severity of the reduction. To understand this, we need to turn again to the main players: Button, Hawke and Keating. The motivations of each are evident from their respective speeches to Parliament, where Button emphasised “building a more productive culture within industry”,¹¹¹ Hawke spoke of creating “an outward-looking community, enmeshed with the dynamism of the Asia Pacific region”¹¹² and Keating portrayed the decision as part of Australia’s “quest for international trade and efficiency”.¹¹³ These quotes indicate more than the perspectives of their portfolios. Just as in 1988, Button’s goal was industry restructuring, Hawke’s was greater global integration and Keating’s was economic efficiency.

However, whilst Button, Hawke and Keating all saw some reduction in industry protection as desirable, there were differences among them on the question of how large that cut should be. Unlike the other two, Button felt that the recession would continue to deepen. Moreover, he

¹⁰⁷ Quoted in Costa, Michael and Duffy, Mark, *Labor, Prosperity and the Nineties. Beyond the Bonsai Economy* (Sydney: Federation Press, 1991), p. 174.

¹⁰⁸ Garnaut, Ross, *Australia and the Northeast Asian Ascendancy. Report to the Prime Minister and the Minister for Foreign Affairs and Trade* (Canberra: AGPS, 1989)

¹⁰⁹ The report argued “Critical to success in this historic transformation of the Australian economy is the building of an export culture, within the private as well as the public sector. The experience of many countries, and our own experience in industries subject to open international competition, is that the most important precondition for building an export culture is the removal of barriers to trade at international borders.”: Garnaut, Ross, *Australia and the Northeast Asian Ascendancy*, p. 218

¹¹⁰ Interview with Bob Hawke. In personal terms, Hawke has described Garnaut as “an outstanding Australian” (Callick, Rowan, “Architect of the New Australia” in *Australian Financial Review*, 4 March 1994, pp. WR 1,4). Of their relationship, he said: “I used him right throughout my government as a personal economics adviser, then as ambassador to China, which I always saw as centrally important to what was happening in the region, then got him to do the report. So there was a continuous stream of interaction between Garnaut and myself.” (Interview with Bob Hawke). See also Bob Hawke, *The Hawke Memoirs*, p. 494.

¹¹¹ Button, John, “Challenges and Opportunities for Australian Industry”, *Senate Hansard*, 12 March 1991, pp. 1661-79 at 1661

¹¹² Hawke, Bob, “Building a Competitive Australia”. *House of Representatives Hansard*, 12 March 1991, pp. 1761-1770 at 1769

¹¹³ Paul Keating, 1991, “Building a Competitive Australia - Taxation Measures”, p. 1770

had been visiting factories and as he put it, “copping all the flack”,¹¹⁴ which strongly influenced his attitudes.

I thought the phasedown which we announced in March 1991 was probably a bit quick – moving 15 percent tariffs to 5 percent by the year 1996. Hawke and Keating both took a different view from me on that, and I didn’t argue it in the cabinet because I knew I wasn’t going to win – because they both rang me before the cabinet meeting.¹¹⁵

As a result, Button “agreed to play dead”¹¹⁶ and not argue in cabinet for a gentler reduction in tariffs. As Hawke describes it, “Button’s position on the tariff cut train was that of a reluctant passenger”.¹¹⁷ Yet others were prepared to clash with Hawke and Keating on the issue - among them, Robert Ray, Michael Duffy, Gerry Hand and Graham Richardson.¹¹⁸

The cabinet meeting which endorsed the March industry statement was one of the most difficult in the life of the Hawke government.¹¹⁹ Graham Richardson, who opposed the decision, subsequently denounced it as a triumph for “economic orthodoxy”.¹²⁰ Other members of cabinet simply believed that in the midst of a recession, the government should avoid making any decisions which were likely to cause further unemployment. Hawke is scathing in his description of those who opposed the cut, terming them “nervous nellies”, and claiming that “the intellectually inadequate among my colleagues couldn’t quite understand all the connections”.¹²¹ He was confident that once he took a stance, Cabinet would support him.¹²²

Keating takes a different view of the cut, placing it in the context of the battle for leadership of the ALP. His frustrations with Hawke had boiled over in a speech delivered on 7 December 1990, in which he claimed that Australia had never had a strong leader. From that point on, a leadership challenge was inevitable. It was delayed by the outbreak of fighting in the Persian Gulf in January 1991. But two months later, the leadership issue was back on the table. As Keating recalls the Cabinet meeting to approve the March economic statement, “if he’d deviated from those of us in Cabinet who were running the economic reform agenda, it’d bring a challenge straight on”.¹²³ It was not until 3 June 1991 when Keating first challenged Hawke for the leadership, and not until 19 December 1991 that he made his second (and this time successful) challenge.

¹¹⁴ Interview with John Button

¹¹⁵ John Button, quoted in Australian Broadcasting Corporation, *Labor in Power. Five part ABC TV series on political power in Australia 1983-93* (Sydney: ABC, 1993)

¹¹⁶ Taylor, Liza, *Labor in Power. The Essential Companion to the ABC TV Series on Political Power in Australia 1983-93* (Sydney: Australian Broadcasting Corporation, 1993), p. 34

¹¹⁷ Interview with Bob Hawke

¹¹⁸ Gordon, Michael, *Paul Keating. A Question of Leadership* (Brisbane, Qld: University of Queensland Press, 1993), pp. 136-37

¹¹⁹ Interview with Bob Hawke

¹²⁰ Graham Richardson, quoted in Australian Broadcasting Corporation, *Labor in Power*

¹²¹ Interview with Bob Hawke

¹²² In Hawke’s words, “in the whole of the period I was Prime Minister, if I was in favour of a course of action, the cabinet never once sought to impose their will upon me” (Interview with Bob Hawke).

¹²³ Interview with Paul Keating

Ultimately, with the active support of Hawke and Keating, and the reluctant endorsement of Button, Cabinet approved the March 1991 economic statement. It not only slashed the average rate of protection; it also eliminated discrepancies between industries¹²⁴, with two exceptions – passenger motor vehicles (PMV) and textiles, clothing and footwear (TCF). In the case of PMV, the government was satisfied with the pace of reform in the industry, so the 1991 statement simply sought to maintain the policy direction which had been established in the 1985 PMV Plan. Button assured the industry that the 1991 cuts would “maintain the policy direction already established by continuing the existing rate of tariff reductions [through to the year 2000]”.¹²⁵

However, in the case of TCF, Button felt differently. He told parliament that:

the pace of restructuring in the TCF industries has not been sufficient for these industries to become more internationally competitive by the end of the scheduled Plan¹²⁶

Button’s opinion that reform in the TCF industries was not occurring fast enough¹²⁷ was based on a view that the industries were overly preoccupied with protection levels, rather than with other factors which could make them more competitive. Consequently, it was decided to accelerate the pace of tariff reduction. Whereas the 1988 statement had stated that TCF tariffs would fall to a maximum of 55 percent by 1995, the 1991 statement announced that tariffs would be phased down to a ceiling of 25 percent by the year 2000.¹²⁸ Further, it

¹²⁴ The standard deviation of assistance to manufacturing declined from 48 percent in 1984-85 to 30 percent in 1989-90.

¹²⁵ John Button, “Challenges and Opportunities for Australian Industry”, p. 1663. Although the Passenger Motor Vehicles Plan anticipated that one or two manufacturers would leave the market, it was probably inevitable that when this occurred, some would blame the tariff cuts. When in 1992, Nissan closed down all production in Australia, its Japanese management cited trade liberalisation as a key factor in the decision (although this must be tempered by the admission of Nissan Australia’s managing director that the company had been losing money for 15 years). Some also held the new tariff regime responsible for Ford’s 1994 decision to end production in NSW. In both cases, the Keating Government failed to alter the pace of tariff reform in order to pacify the companies involved: Hale, Brian and Lynch, Michael, “Ford Australia’s future now in doubt”, *Australian Financial Review*, 29 July 1994, pp. 1, 16; Lynch, Michael, “Ford’s future on line at top-level meeting”. *Australian Financial Review*. 27 July 1994, p. 12; Lynch, Michael, “Exports remain the key to Ford’s problem”. *Australian Financial Review*. 29 July 1994, p. 16.

¹²⁶ John Button, “Challenges and Opportunities for Australian Industry”, p. 1664

¹²⁷ In a subsequent interview, Anna Booth, National Secretary of the Textiles, Clothing and Footwear Union of Australia from 1985-95, agreed with this view, claiming that whilst the TCFUA was doing all it could to assist restructuring, many manufacturers were unwilling to make the necessary changes (Interview with Anna Booth, 7 September 1994).

¹²⁸ The TCF quotas in the year 2000 are to be 25 percent for clothing, and 15 percent for textiles and footwear: Textile, Clothing and Footwear Union of Australia, *Textile, Clothing and Footwear Industries in Crisis*, p. 5

removed safety-net provisions from the TCF Plan¹²⁹ and brought forward the deadline for phasing out quotas by two years to 1993.

Postscript: Labor's trade policy 1991-2001

The decade following the 1991 tariff cut saw Labor essentially support free trade, though with some aberrations. In the 1993 election, Prime Minister Keating attacked Opposition Leader John Hewson's promise to phasing out all tariffs by 2000, labelling him "Captain Zero". Yet just a year later, at the annual APEC leaders' meeting in Bogor, Indonesia, Keating succeeded in persuading all members to commit to the bold goal of phasing out their trade barriers by 2010 in the case of developed economies, and 2020 in the case of developing economies.

In the two years after Labor's 1996 election loss, the ALP began to adopt a more cautious approach towards trade liberalisation. This partly represented an attempt by Opposition Leader Kim Beazley to distinguish the party from the Hawke-Keating legacy, as well as a response to the rise of Pauline Hanson's One Nation party, which advocated strongly protectionist policies. In 1997, Labor called for a freeze on automotive tariffs from 2000-2005, prompting a powerful attack from Whitlam – who accused the Party leadership of "wanting to direct scarce public [national] resources to a re-run of Scullinism and McEwenism".¹³⁰ The following year, Labor's election platform proposed abolishing the Productivity Commission, and replacing it with a body whose mandate was more focused on assisting industries than consumers. For a time, it seemed that the public choice model might have some salience after all: the Labor Party had perceived the electoral incentives on offer, and was responding to them.

But following the 1998 election, the pendulum began to swing back. In 1999, Beazley gave a speech in which he unequivocally declared:

The one guaranteed route to global wealth destruction lies in the downward spiral of relative protectionism ... The problem with beggar-thy-neighbour protectionism is that everyone has neighbours. Labor will not stand for it.¹³¹

In early-1998, Beazley had appointed as Shadow Trade Minister Senator Peter Cook, a passionate free trader who had served as Trade Minister under Keating. After the 1998 election loss, Cook now set about shaping the views of the party. At the 2000 ALP National Conference, he entirely re-wrote the section of the ALP platform that dealt with trade. Where previous drafts had couched their language carefully, this one now contained a firm commitment to "free trade". It began with a clear statement.

Labor is committed to ensuring that the benefits of global economic growth are shared – both within Australia and between countries. We support free trade as a means of

¹²⁹ The safety-net provisions meant that if production appeared likely to contract by more than a specified amount, the Plan could be suspended or reviewed: Textile, Clothing and Footwear Union of Australia, *Textile, Clothing and Footwear Industries in Crisis*, p. 4.

¹³⁰ Whitlam, Gough, "A Tribute to the Modest Member", Centre for Independent Studies, Bert Kelly Lecture Series, Melbourne, 13 March 1997, p. 6

¹³¹ Beazley, Kim, "Winning in the Global Economy: Trade Policy in the New Millennium" (Monash APEC Lecture, Melbourne, 18 June 1999)

generating the growth necessary for enhancing the living standards of everyday Australians.¹³²

The platform went on to endorse Labor's decisions to reduce industry protection in the 1980s and 1990s, and to commit the ALP to achieving APEC's Bogor Declaration goals. When it came to be voted on at the National Conference in August 2000, the Left faction of the ALP, led by the National Secretary of the Australian Manufacturing Workers' Union, Doug Cameron, opposed the policy. In the subsequent vote (the only vote taken at an ALP conference since Labor's 1996 election loss) the free trade position was supported by the Centre and Right factions, and the platform was endorsed.

What trade policies will Labor adopt under Opposition Leader Simon Crean? In the 1998 election campaign, Crean as Shadow Minister for Industry and Regional Services was strongly associated with the proposal to disband the Productivity Commission, leading some to suggest that he would be unlikely to support further trade liberalisation. Yet in 1999, as Shadow Treasurer, Crean stated that "the tariff debate can be safely consigned to the dustbin of history. Labor eschews tariffs as a policy tool for the future".¹³³ The true test of this statement will come in 2005, when there will be substantial pressure placed on Crean – not least from his home state of Victoria – to defer the legislated cut in motor vehicle tariffs.

Conclusion

The question that this article sought to answer was why Labor, despite its long protectionist legacy, initiated the three largest tariff cuts in Australia's history. In the absence of strong anti-tariff lobby groups, or any groundswell of electoral support for reducing industry protection, we must move beyond interest groups to look at institutions, ideas and individuals. In part, changes in the international environment also affected the two later decisions, in 1988 and 1991.

To properly comprehend why Labor was transformed from the party of "New Protectionism" to the party of free trade, one needs to look at the role played by several Labor figures – Whitlam in 1973, and Button, Keating and Hawke in 1988 and 1991. These four men challenged ALP orthodoxy not because of pressure from interest groups, nor because it was electorally popular¹³⁴, but because they believed it was a necessary part of dismantling the now-outdated "Australian Settlement". The intellectual underpinnings for this position came primarily from the Productivity Commission (in its various incarnations), and from a handful of economic advisers who served Hawke and Keating.

Labor's shift towards free trade began at a time when most other social democratic parties were far more isolationist. Indeed, at the time of Whitlam's 1973 tariff cut, the three political parties closest to the ALP were all far more protectionist. The American Democratic Party and the New Zealand Labour Party were both firm in their support for industry protection,

¹³² Australian Labor Party, *ALP Platform 2000. As Approved by the 42nd National Conference* (Canberra: Australian Labor Party, 2000), Ch. 5

¹³³ Crean, Simon, "Labor's Economic Perspective: Economic Leadership for Growth and Development", Sydney Institute, 30 March 1999

¹³⁴ Since World War II, polls have shown that a majority of Australians support protectionism Goot, Murray, *Contradictory Consciousness: polled opinion on protection, 1944-1992* (Unpublished: December 1992).

and the British Labour Party was split over whether to support or oppose the UK's entry into the European Economic Community (now the European Union).

But in the 1980s and 1990s, all three political parties have shifted ground. With his strong support for the US's entry into NAFTA, President Bill Clinton took the Democratic Party – once a free trading party of the agrarian south, but in modern times a protectionist party of the industrial north – back to a more free trade position. From 1984-89, the New Zealand Labour Party, under the leadership of David Lange and Roger Douglas, rapidly accelerated the reduction of tariffs and the abolition of quotas as part of a major structural adjustment program. And while the UK's 1973 entry into the European Union made the domestic trade debate far less relevant, Tony Blair and Gordon Brown have since 1997 been vocal advocates of further trade liberalisation.

When in the late-1990s, Clinton and Blair began discussing a “Third Way”, or new brand of progressive politics, a commonly heard riposte from senior ALP figures was “we did it first”. While this claim does not hold in all areas, it is perhaps best supported by the example of trade policy. Labor's dismantling Australia's trade barriers was driven first and foremost by ideas. Perhaps it would have pleased David Ricardo, the economist whose work on comparative advantage¹³⁵ still forms the core of modern trade economics. After all, his original purpose was not to develop international economics for its own sake – but rather to provide an intellectual justification for the repeal of protectionism – in the form of the British corn laws.

¹³⁵ Ricardo, David, *On the Principles of Political Economy and Taxation* (London, J. Murray, 1817)

Figure 1: Average Effective Rate of Assistance to Manufacturing

