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AUSTRALIA RECONSTRUCTED: OOPS, MISSED THE TURNING ...

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What makes the experience of *Australia Reconstructed* (*AR*) of enduring interest? Partly it is a matter of modern economic history and, as such, deserves to be carefully documented. It also has a broader political-economic significance. Understanding the rise and fall of *AR* is a means of developing a deeper understanding of the constraints on economic reform in Australia, even (or perhaps especially) with an ALP government in office. There was a magic moment - a 'window of opportunity' to use the current jargon - when *AR* could have signalled a new direction for Australian economic development. However, the moment passed, and one may infer that this was, in part at least, because key decision makers in government were unwilling to embrace such a comprehensive program of economic reforms. No one with even the most cursory understanding of political economy can imagine that reforming the capitalist economy is free of contradictions. However, proposals for economic reform will continue to resurface for just as long as the interests of capital are at odds with the needs and aspirations of labour. Learning from the experience of *AR* is therefore just as important for the proponents of reform as for its critics.

Building an Alternative Highway

What road did *AR* propose to take us along? What shaped its construction? The context in which *AR* was developed had several important features, as follows.

First and foremost, *AR* was an *extension of the Accord*. It embodied similar goals about making Australian capitalism work 'better' so that the fruits of sustained economic growth could be shared with the workforce and the society at large. It was underpinned by similar assumptions about the possibility and desirability of regulation of the capital accumulation process, involving a more extensive role for government and tripartite (government, business, labour) institutions in steering the pattern of economic development. It shared similar assumptions about the possibility of managing the national economy, notwithstanding the increased integration of Australian economic and financial institutions into the processes of global capitalism. It saw trade unions as having a role to play in the processes of management, both within individual business enterprises and for the nation as a whole.

Secondly, *AR* can be regarded as a *response to the growing problems within the Accord process*. Changing economic circumstances accentuated the perceived need to augment the Accord with additional policy instruments. In particular, the growing current account deficit evidently demanded a coherent policy response. Treasurer Keating drew attention to this issue, most notoriously in his 'banana republic' remarks of 1986. The combination of Accord-type arrangements in the labour market and deregulation of financial markets was obviously not proving to be an adequate means of securing satisfactory balance of payments outcomes for the national economy. Promoting import-substitution and/or export-oriented industries came to be a dominant concern. *AR* can be regarded, at least in part, as a response.

A third consideration is the impetus that arose from *political tensions within and between the Accord partners*. Ever since the Accord became a cornerstone of government policy in 1983 there was, in effect, a two-line struggle over whether to wind back its scope and ambitions or to extend it. Winding it back would have meant capitulation to the conservative forces who wanted to use the Accord merely as an instrument for wage-restraint and industrial peace (clearly manifest in the marked reduction in industrial disputes after the introduction of the Accord). Extending it would have meant the development of a more broad ranging 'social contract', emphasising the elements which had not been thoroughly developed in its original version, including policies for

industry development (listed only briefly in the supplementary 'supporting policies' section of the original Accord agreement). *AR* was a focal point for the latter push.

Fourth, *AR* can be seen as an *extension of particular currents of political-economic analysis* developed in the 1980's. The possibility and desirability of 'alternative economic strategies' had been widely discussed. This journal provided a particular forum for proposals and debates on this topic, with a special double issue on alternative economic strategies being published in 1982 and other articles on the topic appearing in subsequent issues. Contributors included Labor MP's and policy advisers as well as academics (see particularly JAPE nos. 12/13, 17, 19 and 20). This is not to assert that JAPE helped to fashion *AR*! Rather the more modest proposition is that the key ideas underpinning the *AR* proposals had a long gestation period in which there was significant contributions from political economists. The book by Ewer, Higgins and Stevens (1987) can be regarded as the culmination of this process.

Finally, and more directly, *AR* built on some *important precedents within the trade union movement*. It did not appear 'out of the blue'. There was a significant precursor in the report *Policy For Industry Development and More Jobs*, produced by the Metal Trades Union (1984). That MTU report provided a comprehensive analysis of the constraints on Australian industrial development and presented a range of proposals for more 'interventionist' industry policies. It was not as wide-ranging as *AR* in its coverage of policy areas (not dealing in any detail with labour market and training policies, for example, nor trade union structure) but it was in certain respects more analytically sophisticated. It drew on post-Keynesian critiques of neoclassical microeconomics and on macro econometric modelling undertaken by the National Institute of Economic and Industry Research (see Stilwell 1984). The MTU report was itself a development from the earlier forays by the Metal Workers into the analysis and prescription of the nation's economic problems, as illustrated in the series of popular pamphlets *Australia Uprooted*, *Australia Ripped-Off* and *Australia On The Rack*. Those earlier publications paved the way, although they had quite a different character, reflecting their role in 'political education' and 'grass roots' campaigns

within the union movement. *AR*, like the weighty 1984 MTU report, was significantly different both in style and political purpose - it was more mature or more technocratic, depending on your point of view.

Competing Interpretations

How can we understand the broader significance of the *AR* proposals? Possibilities include seeing *AR* as:

- a 'blueprint' for policies to be implemented by the government;
- a rhetorical device to combat the effects of 'economic rationalism';
- a reform program oriented to the internal affairs of the trade union movement.

The first of these interpretations is the most obvious. The principal focus of *AR* was an integrated package of policies designed to improve national economic performance. The language and tone of the report clearly had that character. Yet it is hard to imagine that its authors expected their comprehensive recommendations (72 in all, or 55 excluding the final chapter on internal union affairs) to be implemented *holus bolus* in the reformulation of national economic policy. As a set of policy proposals, *AR* was evidently an exercise in advocacy. This is what is implied by the second hypothesis above - *AR* as a rhetorical device. This interpretation emphasises the confrontation with prevailing 'economic rationalist' currents in government policy, shaped particularly by the policy analysis and advice coming from the Treasury and the Industry Assistance Commission. *AR*, from this viewpoint, was a valiant propagandist effort to turn the tide.

The balance between these two interpretations is not easy to draw. Indeed, proponents of any 'left' alternative economic strategy proposals continually face this dilemma - whether the policies constitute a practical policy program or radical rhetorical device? The advocacy of a 'left' alternative is partly a means to launch a critique of prevailing policies. Yet in order to refute the recurrent claim that 'there is no alternative' (the notorious TINA syndrome) the critique has to be set out in the form of a specific alternative policy program. Tensions and contradictions in the

alternative policies may be acknowledged, but the tendency is to diminish them in order to maximise the effectiveness of the overall critique. *AR* may be understood in this context as posing an alternative in which the potential problems of its implementation are de-emphasised. Indeed, the early political 'death' of *AR* may be considered as a partial confirmation of this interpretation. In other words, *AR* was an intervention on the losing side in a two-line struggle over the 'economic philosophy', more than the mechanics, of government policy.

The third possibility remains - that *AR*, for all its appearances as an economic policy for a reforming government, was primarily about the *internal* affairs of the trade union movement. In brief, this means that the final chapter of *AR* is the key component, with its dominant emphasis on union structures and strategies. Certainly, trade union amalgamations proceeded apace after *AR* and it may be argued that the report gave considerable impetus and legitimacy to the process. In fact only two pages in the report and only two of its recommendations dealt with amalgamations, but here was something that the unions could act on themselves. *AR*'s rationale for amalgamations stressed that 'this is critical for developing and pursuing the policies described in this Report'. In practice the amalgamation process has gone ahead quite independently - indeed in the absence - of these economic policies. Whether this has been conducive to the broader goals of strategic unionism remains a moot point. The contrary effect has been for the concern with 'internal' affairs of union restructuring to absorb energies that might have been directed to the pursuit of greater strategic union influence in shaping economic policy.

Side Track or Main Road?

With the benefit of hindsight, it is clear that the necessary social preconditions for the effective implementation of the *AR* program did not exist. This is not just a matter of the excessive number of trade unions existing at the time. More fundamentally, it is a matter of the lack of any social democratic tradition comparable to the Scandinavian countries being emulated.

AR appeared four years into the life of the Accord and the Labor Government had already been re-elected, so it is possible to argue that the necessary institutional framework and social commitment could have been in the process of being established. However, as Peter Beilharz (1994, pp. 39-41) has emphasised, the labourist tradition in Australia is more limited in its conceptions of society and politics than the social democratic orientation of the Scandinavian nations. This tradition was evidently not going to be quickly transformed. Indeed, as Graham Maddox (1989) has argued, even the more progressive aspects of Labor's traditions were in the process of being reversed. The early Accord years had also seen the audacious implementation of policies directly at odds with the 'economic philosophy' underpinning *AR*, such as financial deregulation and further moves towards trade liberalisation. Most importantly, the key elements of the Federal bureaucracy remained citadels of free market economic orthodoxy. As Michael Pusey (1991) demonstrated in his controversial work, the key personnel in these government departments held values quite inconsistent with the 'interventionist' orientation of policies like those advocated in *AR*.

All in all, these were not propitious conditions for the *AR* program to command the necessary support.

What if the *AR* policy program *had* been implemented? Could it have been successful in generating improved economic performance? And if so, who would have captured the benefits? Critics can reasonably point to the problems arising from the pursuit of a nationally-based strategy of capital accumulation in a context where capital is increasingly mobile internationally. However, there is no general reason why policies which impart a greater degree of stability and planning into the national economic environment should undermine the levels of productive investment. The *AR* proposal for a National Development Fund is a good case in point. If the operation of such a fund was effective in steering more savings into productive investment, then there need be no reduction in the rate of return on the savings invested in the funds. On the contrary, the logic of the policy is to create a 'win: win' situation for capitalists and workers by recognition of their common interest in a coherent program of industry development which increases the national income, output and employment levels over the longer term. This is not

to deny possible contradictions or tensions; the distribution of the benefits would depend, for example, on the dimensions of the incomes policy and the tax structure. However, the *AR* proposals could have been a means of increasing the total revenue from which capital and labour draw.

The *theoretical underpinnings* of *AR* industry policies also had (and continue to have) much to commend them. There is a strong challenge to the conventional neoclassical economic assumptions about substitutability in production, the role of competitive markets in generating allocative efficiency, and the principles of diminishing returns and constant returns to scale. Instead, the *AR* industry policy emphasises *complementarity* of industries, the importance of resource *creation* processes and the tendencies towards *increasing returns* through skill formation and 'learning by doing' in industry. These theoretical aspects are less explicit than in the earlier MTU report, but effectively underpin the proposals for blending markets with strategic intervention. It is possible to interpret this view of industry policy as the application of theories of 'circular and cumulative causation', developed in the tradition of political economy by the work of Allyn Young, Nicholas Kaldor and Gunnar Myrdal (Argyrous 1996). This is a refreshing antidote to neoclassical economic theorising and the associated free-market orthodoxies. More than that, it is a potentially much more fruitful means of understanding the conditions for economic development.

What of the *politics* of a reformist package such as *AR*? In general there is the same tension evident in other aspects of the Accord (as discussed in Stiiwell 1997). The positive features include the spotlight placed on the state as an arena of struggle, the potential to extend the influence of the labour movement and to develop expertise in issues of national economic management. A framework is established for class-solidaristic strategies, rather than leaving different groups of workers to fight their own battles in the marketplace (and leaving the unemployed out of the picture altogether). Against all this are the obvious dangers of the labour movement being co-opted into a process of structural economic change in which the interests of labour are ultimately subordinated to those of capital, as critics of *AR* warned at the time (eg. Thompson 1988, Flew 1989). None of this is pre-ordained: whether the positive or negative

aspects dominate in practice depends on the nature of the ongoing struggle. At least with the interventionist strategy the labour movement is there at the centre of the action. It is, so to speak, in the game rather than standing on the sidelines shouting 'foul' at the referee.

Ultimately whether a reform program like *AR* warrants support depends on what the *alternatives* are. The 'economic rationalist' alternative is obvious enough. What else has the 'left' to offer in its place? With the collapse of the traditional 'Leninist' strategy for socialism, emphasising the role of a vanguard party and exhortations to international worker solidarity, there is a vacuum in socialist strategic thinking unless there is some engagement with 'radical reforms' to the existing political-economic system. There is an evident need for a viable 'third way' or 'fourth way', as I have argued more thoroughly elsewhere (Stilwell 1994). Proposals like those in *AR* can be interpreted in that context. They are not unproblematic, of course, but at least they are grappling with the possibility of an alternative to 'economic rationalism'. In the absence of such alternatives the 'new right' ideologies and practices fill the vacuum. The critics of reform then have little to offer - in effect, no more than focusing on the wages struggle and letting the contradictions associated with the 'logic of capital' work themselves through the global economy. In other words, the alternative in practice to *AR* is what we're getting in the present era with the Howard government ...



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