INDUSTRY POLICY: POSSIBILITIES IN A CHANGING INTERNATIONAL ECONOMY

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Concern with the national political implications of international capitalism is central to contemporary debates in political economy. Changes have occurred in the nature of capital accumulation on a world scale over the last twenty five years and new developments are creating particular problems for national macroeconomic management. This article argues that, despite the increased pressure for economic liberalisation that international markets are placing on the national policy regime, some potential remains for developing public influence over capital accumulation. Such influence can reduce the extent to which international markets and private capital alone determine economic performance at the national level. Capital accumulation has never been, and will never be, entirely public or entirely national. However, national policy may take greater precedence over the 'logic' of global accumulation than is presently occurring. Although autarky cannot prevail in an internationalised world, some public steering of the process of capital accumulation is both possible and desirable.

The first section of this article outlines the arguments of what is broadly termed the 'internationalist position', in particular the claims that are made by the internationalists in relation to the loss of national policy autonomy and the imperatives of global accumulation. The implications of the internationalist debates for industry policy are explored and it is argued that industry policy can be used as a mechanism for extending the realm of economic activity associated with policy choices rather than individual market decisions. In particular, the implications of industry policy for employment and macroeconomic performance are identified.

Governments have a capacity to affect economic outcomes by developing industry policies which establish public influence over the level and structure of economic activity. The particular institutional and policy arrangements affecting state, finance, labour and industry relations which are crucial to the development of industry policy in an internationalised environment are set out in the second and third sections of the article. The general argument is that negotiation in an appropriate institutional framework offers the greatest opportunity for developing industry policy which influences economic performance in a changing global economy.

Industry policy, or the formulation of policy influences over production and accumulation, has not been fully implemented or explored in modern capitalist economies. While it is by no means a solution to all the problems posed by changes in the nature of capital accumulation, industry policy has the potential to exploit public policy capacities in relation to economic management. Although the power of international capital should not be underestimated, industry policy can operate to reduce the extent to which economic outcomes are determined by international market forces.

Internationalisation and the Macroeconomic Implications of Industry Policy

Although the internationalist literature is extensive and varied, it is necessary for the purpose of analysis to draw some general conclusions about the implications of the debates for the possibilities of national politics. Internationalists argue that Keynesian style macroeconomic management is no longer possible because it was formulated on the model of a 'closed' economy. Of course, national economies were never closed. However, the organisation of the international economy at Bretton Woods is thought to have facilitated the implementation of Keynesian interventionist policies in the postwar period because national autonomy was a cornerstone of the Bretton Woods compromise (Radice 1988). Since the collapse of the Bretton Woods system in the 1970s, nationally specific patterns of accumulation and the pursuit of social democratic priorities such as full employment and redistribution have been superseded by the dictates of globalisation, the quest for 'international competitiveness' and external stability (Crotty 1983; Moses 1993). According to this view, national policy making is undermined by foot-loose capital unleashed by the removal of exchange controls and, with the assistance of modern technologies, able to relocate instantly around the globe. The movement of large funds across borders and the continual threat of capital flight undermine the possibility that national governments might pursue independent economic policies.

A second related but distinct argument is that, as capital becomes integrated into the global economy, the logic of international accumulation determines policy outcomes: nations are increasingly bound to conform to internationally imposed criteria of accumulation (Bryan 1987). Some Marxists argue that the internationalist character of the post Bretton Woods period means that national policy will tend to sacrifice the interests of labour in order to improve the competitiveness of national firms and to attract capital (Bryan 1995). It is not that the state has been rendered impotent by changes in the international economy, but that the role of the state is in the reproduction of the global relations of accumulation.

The first of the 'internationalist positions' has recently been questioned by the suggestion that international economic reform is possible and that globalisation is less extensive than might be expected (Bienefeld 1992; Block 1990:217; Eatwell 1996:16; Epstein and Schor 1990:150; Felix 1995; Goodman and Pauly 1993:81; Hirst and Thompson 1995:425, 1992:366-368; Hutton 1994; Langmore and Quiggin 1994:184-188; Notermans 1993; Wachtel 1995). The sceptics of globalisation argue that some national policy options capable of influencing the pattern of accumulation remain despite the growing constraints of global accumulation. The argument is that the fear of capital flight may have been exaggerated - overstating the power of international capital (Fox Piven 1995; Glyn 1995; Tomlinson 1988). If policy makers accept that national political regulation has been entirely constrained by globalisation then market forces would be given greater sway than might otherwise be the case.

The suggestion that Keynesian interventionist policies are no longer possible in an increasingly internationalised environment understates the centrality of industry policy in Keynesian and post-Keynesian theory. Increasing levels of trade and speculative international financial transactions obviously pose problems for policy makers in the current period but some capacities, though often underdeveloped, are still viable. The importance of industry policy to economic success, given changes in the international economy, lies in its capacity to ensure the development of a diversified national economy that is at least partially insulated from fluctuations in price and demand in international markets. In addition, industry policy enables a nation to restructure rapidly in line with trends and opportunities in national and international markets (Katzenstein 1985). As certain sectors, particularly manufacturing, become increasingly important, because of their value in international markets and their strong association with a range of domestic activity in other sectors (Cohen and Zysman 1987), industry policy becomes more important because it has the potential to affect the sectoral structure of the economy, to promote one regime of accumulation rather than another.

One of the most significant and ongoing policy problems for national economic management is to deal with structural adjustment, the winding up of old industries, the adoption of new technologies and innovations, the financing of investment and regional development, the relocation of investment from one activity to another and the retraining of the labour force for new activities. Industry policy is therefore central to the management of the national economy.

The second 'internationalist position' reduces policy to a mere function of the imperatives of global accumulation and is defeated by the reality that industry policy has the potential to prioritise public goals that may, on occasions, conflict with (rather than reinforce) the requirements of the existing structure of private accumulation. This contrasts with the prevailing pro-market view which emphasises the removal of protection, the lowering of taxation, labour market flexibility, competition policy reform, the relaxation or removal of regulations including environmental, health and safety legislation and company legislation. If industry policy is to satisfy macroeconomic objectives, it needs to be used as a tool for displacing market determinants of economic activity in favour of public influences on investment and the structure of the economy. A range of policy tools can be utilised, the purpose of which is not to enhance the performance of individual firms or to smooth out hiccups in the market, but to ensure that the level and nature of industrial activity is determined by public policy. Sectoral policies necessarily form part of this approach as they provide for public determination of the structure of economic activity. Other policies that may be utilised include tariffs, subsidies, import quotas, public ownership and/or regulation of industry and finance, public financing of investment, regional policy, infrastructure development, urban regeneration, sectoral policies, investment policies and R&D policies. Recessionary cartels[1], used in Japan, can also be an effective means of preventing overproduction and competitive pricing in industries where there is a temporary decline in demand. The underlying goals of the policy framework are to influence the content and quantity of industrial activity for the purpose of broader management of the economy, including the development of a strong manufacturing sector, improved trade performance and the insulation of the national economy from international market fluctuations.

There have been and remain significant differences in economic performance and the level of state involvement in economic activity in the OECD countries. In 1994 unemployment ranged from 2.9% in Japan to over 10% in Canada, France and Italy. Public expenditure as a percentage of GDP ranged from 33.5% in the US to 68.8% in Sweden (OECD 1995:A25,A31). Explanations of divergent economic performance have tended to neglect industry policy (Boreham and Compston 1992; Goldthorpe 1984; Therborn 1986; Esping-Andersen 1990). That literature which does deal with industry policy has often been unaware of its underlying rationale - to produce an industrial

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1 MITI allowed recessionary cartels to be established in order to prevent firms from pricing each other out of existence during a period of recession when it was believed that there was no general decline in the sector, only a temporary slump. Cartels were formed in declining industries, and production quotas and price floors were imposed in order to prevent competitive behaviour which would further reduce already declining profits. Rationalization cartels were permitted in the early development of an industry because of the high costs of initial investment in certain industries (Krauss 1992:52).

structure different from, and more beneficial than, that which local or global markets would have produced. The extra-sectoral, macroeconomic implications of public policies which seek to influence the structure and level of economic activity or which attempt to alter the relationship between finance and industry have not been sufficiently explored (Cox 1986; Dyson and Wilks 1983; Wilks and Wright 1987), although there have been some exceptions (Katzenstein 1985). The proposition that industry policy may go beyond influencing outcomes in particular sectors and may serve to affect overall macroeconomic performance, particularly unemployment, suggests that there is some potential for national politics to govern economic outcomes and to operate independently of the imperatives of accumulation even in an age of global markets. It is worth exploring the possibility that industry policy, negotiated in an appropriate institutional framework, may serve both as a tool for asserting some influence over macroeconomic outcomes and for maintaining some autonomy from the dictates of global accumulation.

Institutional Considerations: the State, Labour and Capital

If industry policy is to operate as a mechanism for subordinating the 'logic' of international markets to national political priorities, it must seek to redefine the power of markets that is derived from their influence over accumulation. Of course, it would be naive to assume that an interventionist approach to industry policy will not face opposition from international capital. It is therefore imperative that industry policy is negotiated in and supported by a suitable institutional framework.

All interventionist industry policy needs to be accompanied by an appropriate state apparatus. State institutions should seek to conduct research and gather information for the purpose of identifying trends and opportunities in international markets and knowledge about emerging and declining industries. This knowledge can then be used as the basis of choices about the nature and extent of restructuring that must take place in the industrial structure. In addition, industry policy initiatives and strategies should be coordinated by one central bureaucratic agency in order to overcome the haphazard and sometimes conflicting approaches of different bureaucratic structures and policies (Reich 1982:872-877). The success of MITI in Japan verifies the advantages of a coordinated and centralised approach to industry policy formation and implementation. Other East Asian economies have also benefitted from politically determined accumulation strategies.

The development of an appropriate institutional framework for deriving and implementing industry policy is essential if the public policy process is to achieve some successes which defy the 'logic' of accumulation. National policy initiatives, although facing greater pressures from international markets, are more readily achievable when accompanied by institutional support which seeks to incorporate the political organisations of capital into the policy making process (Keohane 1984). Institutional structures which exclude capital from negotiation on the development of industry policy would be ineffective.

The importance of involving labour in institutional or corporatist decision making processes which have an input on macroeconomic management is well developed in the political economy literature (Boreham and Compston 1992; Dow 1995), although not uncontested. There is evidence to suggest that organised labour has a better sense of the economic implications of public policy than does capital. Higgins and Clegg (1987) have emphasised the role of labour in displacing the substantively irrational practices of management which have used short term financial criteria as measures of manufacturing success (Ewer, Higgins, Stevens 1987:ch.4, Higgins and Clegg 1988). In contrast to management, labour can aspire to being a 'bearer of substantive rationality'. Unlike capital, which is "drawn to the quickest paper profit irrespective of national borders and uninhibited by any concern for the productive use of society's capital resources", labour's concern is for "national full employment and sustainable rises in living standards, that is, of industrial development" (Higgins and Clegg 1988:86). A permanent institutional incorporation of labour into industrial decision making processes would improve the chance of achieving the broader goals of industry policy - full employment and industrial development within a national context - though it would also achieve a different industrial structure, a different regime of accumulation.

In the Australian context, there has been a significant recognition of the need for the tripartite negotiation of industry policy. *Australia Reconstructed* (1987) recommended the institutional involvement of unions and business in the formulation of industry policy. The Australian Manufacturing Council and the subsidiary industry councils were seen as having significant potential in the negotiation of industry policy because of their tripartite composition. *Australia Reconstructed* advocated the development of a sectoral industry policy aimed at restructuring in favour of high technology, high value-added industries in line with trends in international markets. That sort of support for interventionist industry policy has not gone uncriticised. The Marxist critique opposes union involvement in industry policy on the grounds that it prioritises business profitability which will ultimately be achieved by sacrificing labour's traditional goals (Bramble 1994). This approach confuses the objectives of industry policy. Industry policy is not concerned with maintaining or increasing the profits of industry. It is concerned with reshaping the industrial structure because market processes produce politically undesirable structural outcomes. Industry policy has the potential to provide unions and the policy process with a means of influencing private accumulation in order to achieve public goals such as full employment.

The involvement of labour in the processes of sectoral change is integral to a strategy for securing full employment because "neither the state nor capital is as committed to full employment as is labour" (Dow 1995:8). Where labour is involved in institutions which influence policies designed to achieve broad macroeconomic objectives, the pursuit of full employment, one of the broader goals of industry policy, becomes a priority. Labour is concerned with industrial regeneration because of its significance to national wealth and full employment and it is only labour which manifests an explicit concern with the attainment of these objectives.

Labour's role in formulating industry policy is also important because it can develop a concern with economic stability and security while not holding an in-principle commitment to the dictates of the increasingly volatile international economy. While capital and even the state have been willing to sacrifice autonomy and security in the pursuit of competitiveness in international markets, labour remains concerned with the implications of international competitiveness for national living standards, employment and wages. A diversified national economy is crucial to economic stability in a volatile international market, and economic stability is a substantive goal for labour. Hence, the institutions of organised labour are normally less willing to permit the erosion of the industrial base and the emergence of sectors characterised by low quality work and insecure employment.

As such, state institutions responsible for industry policy and institutions which ensure bargaining between capital and labour over macroeconomic and industry policy issues are, in principle, conducive to the development of industry policy which is aimed at achieving various macroeconomic objectives and which is capable of reaching a negotiated settlement designed to reduce the extent to which economic performance stems solely from individualistic market processes.

Recent Australian experience does not augur well for the achievement of these goals. The ambitions of the Accord and *Australia Reconstructed*, much of which conform with the approach outlined above, remain unrealised in the Australian context. Various factors contributed to the failure of the Accord to result in broader political unionism. Within the union movement itself there were ongoing factional struggles and the remnants of historical craft unionism and the labourist tradition placed constraints on the acceptance and development of political unionism. These problems were exacerbated by the lack of political support from the Labor Government, demonstrated by its ongoing commitment to market liberalisation beginning with the deregulation of the financial sector in the early 1980s and continuing throughout its whole period in office. The appointment of committed neo-liberals such as John Uhrig and Ross Garnaut to key industry policy advisory positions confirmed the superficiality of Labor's commitment to the broad involvement of unions in economic policy making (Higgins 1994).

These disappointments do not mean that the implementation and development of corporatist industry policy arrangements in the future is impossible. In fact, the whole Accord process and the insights of

Australia Reconstructed suggest that it is possible to formulate an ideological and theoretical understanding of the role of political unionism even in a country with a strong historical tradition of liberalism. Future attempts at implementing an Accord-like process which extends to the development of industry policy would need to address the political and institutional resistances that defeated the process in the 1980s.

Finance and the State

Attempts to expand the realm of economic activity associated with public choices, aiming to partly undermine the extent to which economic performance is associated with market processes, depend upon the relationship between the state, industry and finance. The orthodox view of finance is that it collects savings and channels funds into productive investment (Cox 1986:1-7). However, in practice, much of its activity has been concerned with the maximisation of paper profits through speculation (Stilwell 1988; Wachtel 1995). One of the most pervasive arguments of internationalists has been that this increased speculative activity in international markets has constrained the pursuit of distinctive political experiments at the national level because of the potential of capital flight. Governments are told that they must deregulate financial markets, liberalise trade, cut government deficits, deregulate labour markets and reduce taxation all in the name of 'sound finance' and 'international competitiveness' in order to maintain the confidence of international markets.

However, the threat of capital flight is not the only means by which mobile international capital is seen as posing limitations for the policy process. Marxists argue that the integration of capital into the process of global accumulation has rendered the national policy domain unable to pursue policies which conflict with the imperatives and laws of international accumulation. This is based on the assertion that the role of the state is to secure the "political conditions for international accumulation by ensuring the reproduction of the class relations of capitalism" (Bryan 1987:254).

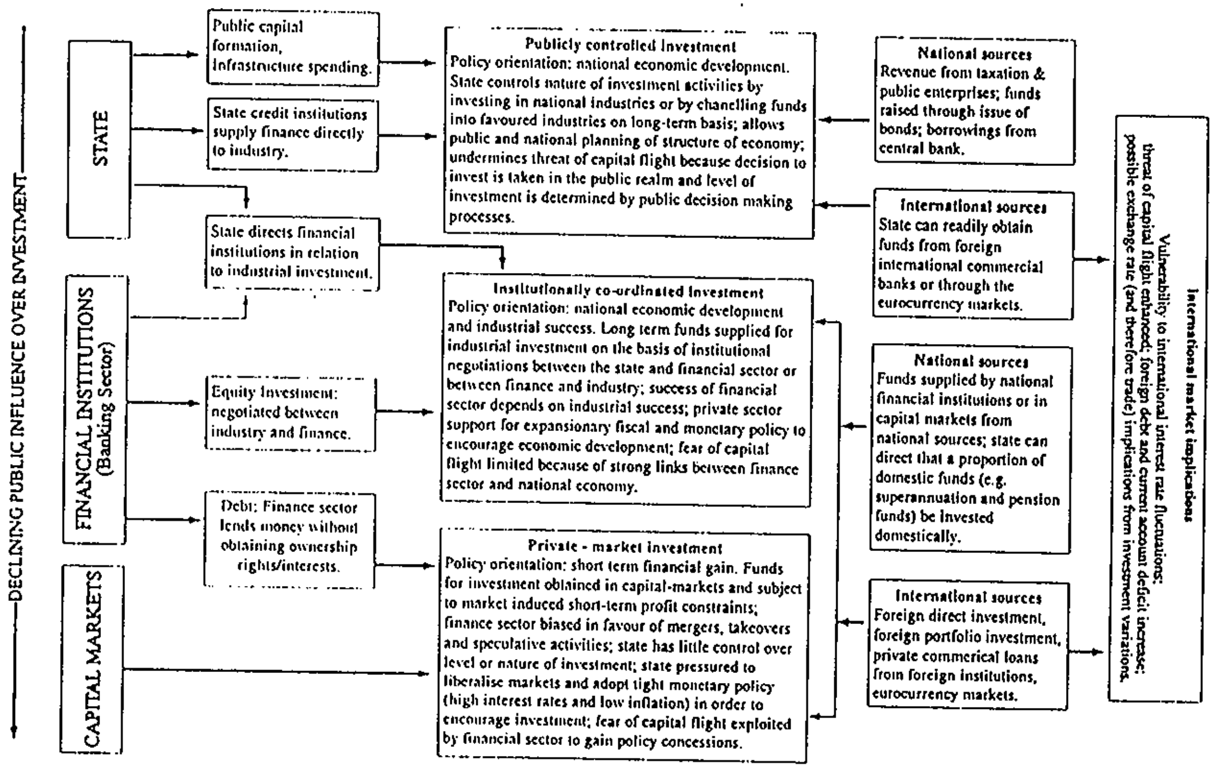
A more modest interpretation views the power of international capital as being associated with its influence over the level and structure of investment (Fox Piven 1995). This is well documented in the political economy literature which has sought to explain the relationship between capital's control of investment and its power to influence political intervention (Block 1977:59; Lindblom 1977:171-173). There have always been impediments to the construction of political interventions which prioritise public goals, although they may have become more powerful as a result of globalisation. The potential for interventionist industry policy which emphasises the pursuit of public goals is in its ability to disarticulate economic well being from the decisions of private corporations and from the 'state of confidence'.

Some re-negotiation of the relationship between the state, industry and financial markets is required, in addition to the development of institutional structures in which industry policy can be negotiated between capital, labour and the state, if policy is to be successful in reducing the power of international capital over the economic performance of the nation.

Studies of alternative forms of finance-industry and state-finance relations are important because they highlight different national patterns of investment and therefore accumulation. There is a differential capacity of these investment processes to prioritise industrial development and therefore mitigate the influence of international capital on national economic outcomes. In order to reduce the constraints on policy imposed by international financial markets, the state must develop greater public influence over the level, nature and sources of investment. While total public involvement in the investment process can never be achieved (nor would it be desirable), it is desirable to have more public input into investment and production decisions than is presently occurring.

The accompanying chart outlines the sources and characteristics of alternative investment paths. In the private-market investment model, capital markets finance investment through the creation of equity and banks through the creation of debt. The level of national investment depends on private sources and decision making processes; so the power of the private sector to influence political intervention and to extract political favours is significant because its decisions determine the

Alternative investment paths: sources and characteristics



Sources: Cox (1986); Epstein and Schor (1990), Winters (1994), Zysman (1983).

economic well being of the nation. Because financial market success depends on low inflation and high interest rates the financial sector places pressure on government to liberalise markets and tighten monetary policy as an incentive for private sector investment (Epstein and Schor 1990:128). The capacity of the state to influence either the level or nature of investment is limited because it is pressured to succumb to the wishes of the private sector financiers (Winters 1994). Industrial adjustment takes place according to competitive market decisions rather than state led policy initiatives (Zysman 1983).

In an institutionally coordinated investment model, the level, price and 'end use' of investment is determined in institutional structures that depend on negotiations either between the finance sector and industry or the finance sector, the state and industry. Cox (1986) has drawn attention to an 'industrial banking' tradition in Germany where finance and industry co-operate and the fortunes of the finance sector are closely linked to the success of industry because banks finance industrial investment through the creation of equity. In return for funding industrial activity, the finance sector obtains ownership rights and interests in the industry. This model of finance-industry relations is more supportive of industry; however, it depends on historically determined relationships between the industrial and financial sectors.

The most famous exposition of the historical relationship between the state, finance and industry in Germany is that of Alexander Gerschenkron (1962). Throughout the process of development in Germany there was a strong sense of the importance of industrial development and a realisation that the role of finance was to support industrial development. In Germany, Friedrich List and St Simon played a significant role in developing national attitudes to industry (Jones 1995:67). Hence, Germany developed a system of industrial banking where financial institutions consolidated individual savings into funds which were channelled into industry. German banks, recognising the importance of industry to economic recovery, played a significant role in financing postwar reconstruction. The state also played a role in funding and directing reconstruction, although it carried out this function within the existing financial structures.

The possibility of emulating this approach in other countries seems remote. In recent times, this historical relationship in Germany is being eroded and state intervention to compensate for the decline in complementarity between the interests of finance and industry is being developed (Deeg 1993).

The alternative institutionally coordinated investment path is that in which the state plays a role in ensuring that the finance sector provides long term funds to industry. In the Japanese case the state through MITI acted as an intermediary between the finance sector and industry and was able to impose public criteria on investment decisions (Cox 1986:19).

Both of the institutionally coordinated investment alternatives, however, depend on the negotiation of investment decisions in a non-market institutional framework. By creating tight links between industry and finance, the possibility of the finance sector being antagonistic towards industry and national development is reduced.

The third possibility is a publicly controlled investment model. In this case public policy processes determine the content, price and level of investment. This model provides the greatest capacity for expanding the realm of publicly determined economic activity because it ensures that decisions about the supply of investment funds are made in the public realm according to political criteria such as industrial development and full employment. An example of this model is that which exists in France where public institutions (special credit institutions governed by public officials) have played a significant role in the financing of industry. The Norwegian state banking system has played a similar role in stimulating investment in manufacturing in Norway. State financial institutions - the Industry Bank, the Norwegian Industrial Fund and Small Industrial Fund - have acted as financial intermediaries and have promoted industrial investment (OECD1987:12; 1988:16; 1989:17).

The state can obtain funds for this type of public investment through taxation, the issuing of bonds and borrowings from the central bank - although political resistance to these reforms may be significant. Even where funds for this type of investment are obtained from international commercial banks or eurocurrency markets, the quantity of funds obtained and their end use can be governed by national political decisions. International financial markets readily supply funds to national governments for investment and they do not have the capacity or the inclination to impose conditions on the end use of those funds (Winters 1994).

Because there may be costs to the national economy where funds for investment are obtained in international financial markets, there is a role for the state to play in expanding the possibility that domestic funds might finance domestic investment projects. It is desirable, for example, for the state to raise funds for public investment by increasing taxes or issuing bonds rather than by borrowing from international financial sources. In addition, the state can direct that a proportion of domestic funds, including pension and superannuation funds, be invested domestically, reducing the need for private investors to seek funds from international markets. Substantial opportunities exist in Australia for regulating the investment of superannuation funds and both the ACTU and the previous Labor Government flirted with the idea of using such funds for national development. These policy decisions can reduce the impact of international market forces on economic outcomes that arise from the international influence on foreign debt, the current account and the exchange rate.

It is not suggested that all investment should fall within this 'publicly controlled' model. However, there are significant differences between countries in terms of the quantity of economic activity which comes under state influence and that which is controlled by private capital markets. In those countries, such as Japan, France and Norway, which have developed higher levels of public input on investment decisions than countries such as the United States, Australia and the United Kingdom, there has been a greater capacity to 'steer' the process of industrial adjustment. The resultant industrial framework may also benefit capital, but its goal is to achieve national outcomes such as employment and growth. The structure of the economy is at least partly influenced by policy decisions and not entirely dictated by the imperatives of global accumulation or the 'logic' of international capital.

Conclusions

This article has argued that industry policy can have an important role in expanding the realm of economic activity associated with political decision making processes. Industry policy can thereby limit the magnitude of international market influence on economic outcomes. A number of conclusions can be derived from this analysis. The first is that industry policy has important implications for macroeconomic performance because it operates as a mechanism for developing public influence over the structure and level of economic activity. Industry policy makes it possible for governments to maintain some influence over macroeconomic performance despite changes in the international economy. Secondly, the institutional framework for formulating industry policy has significant implications for the viability of any innovative approach to industrial intervention. Appropriate institutions must be developed to provide public structures within which capital, labour and the state can seek to influence industry policy initiatives in a framework of negotiation. Thirdly, the analysis suggests that where the state increases its influence over investment and coordinates linkages between the finance sector and industry, it maintains a greater capacity to influence national economic performance.

International trends do not suggest that the proposed industry policy solutions will be readily adopted. Union density is declining, neo-liberalism is rampant, inequality is increasing and labour movements have succumbed to the pressures of globalisation in many nations. At the national level, the failure of political unionism and the dismantling of the Accord has disappointed advocates of intervention. The election of the Coalition Government makes industry policy reform and the involvement of unions in economic policy-making a virtual impossibility.

However, the existence of these tendencies does not imply that they are either inevitable or irreversible. The acceptance of globalisation and market pressures for liberalisation is a political choice. It is necessary to remind ourselves - and the advocates of globalisation - that the very purpose of political debate is to develop collective initiatives which overcome the structural biases of individualistic market processes.

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