


Australian Trade Liberalisation Policy: The Industries Assistance Commission and the Productivity Commission

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Abstract

The Productivity Commission is Australia's foremost policy advisory body. Its original incarnation as the Industries Assistance Commission derives from the 1960s push to dismantle the protective tariff regime that underpinned the Australian manufacturing sector. With success in tariff reductions and complementary reductions in rural sector assistance, the Commission's investigatory role was gradually expanded to cover the entire gamut of government policy. The Commission's history has generally been treated favourably. This article places the history of the original Industries Assistance Commission in context and takes a critical stance on its and the Productivity Commission's vision and achievements.

JEL Codes: N67, O25

Keywords

Competition policy, effective rate of protection, Industries Assistance Commission, industry policy, Productivity Commission, tariff protection, trade liberalisation, trade policy

Introduction

The Productivity Commission (PC) in Australia has a comprehensive mandate for government policy inquiries, a near monopoly probably unparalleled in any other country. This article traces the role of the Commission and its predecessors (Industries Assistance

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Commission (IAC), 1973–1990; Industry Commission (IC), 1990–1996) in trade and industry policy. In a July 2015 opening address to an inquiry into business experience of free trade agreements, the PC Chairman commented,

The Productivity Commission is the successor body to the Industries Assistance Commission, the standard bearer for trade policy reform in Australia. It is in our DNA, as the successor to that body, to continue its ultimately successful – but occasionally deeply criticised – advocacy for reform of the barriers Australia has maintained to international trade, and the policies related to that which slow effective resource re-allocation – the ultimate objective of trade reform. (Harris, 2015)

This article puts the evolution of the IAC in context and provides a more critical perspective on its contribution to economic debate and policy between the 1960s and the early 1990s. It examines the basis of arguments that a narrowly prescriptive approach to liberalisation and a resulting insensitivity to specific industry requirements and contexts equipped these bodies poorly to handle the wide variety of briefs placed before them. The article is in the form of a selective historical narrative. It elicits novel interpretations from official reports and from published literature. But, in particular, it also makes use of primary materials, much of which have not previously received exposure.

The Australian tariff has generated a considerable literature. A significant theoretical exchange arose on the economic implications of Australia's unique system, summarised in Reitsma (1960) and Irwin (1996: Ch. 11). A brief history of the Australian tariff regime and its demise is in Conlon (1994). Representative mainstream economic analysis of the tariff and the IAC is in Lloyd (1978) and Anderson and Garnaut (1987). The broader political dimension is well covered in Glezer (1982), Warhurst (1982), Rattigan (1986) and Bell (1993). Political economy analyses of the class politics of the tariff battle are provided by Bulbeck (1983) and Tsokhas (1984). Considerable important material is located in contemporary trade journals and pamphlets and the media – albeit all now generally inaccessible.

A summary background to this story is appropriate. White Australia acquired its dominant political philosophy – that of liberalism – from its British colonisers. Political debate and conflict in Australia have been waged mostly within the spectrum of that philosophy, with other philosophies fighting for influence from the periphery. Liberalism has never provided a conceptual apparatus for understanding how industrial dynamism and economic development (within a capitalist imperative) occur. In Australia, pro-developmental forces, at both Colony/State and federal levels, resorted to pragmatism to fulfil their aims. This pragmatism was expressed especially in state-directed infrastructure, state support for agriculture and tariff protection for manufacturing. In the 20th century, fear of war and war itself enhanced the national developmentalist impulse.

Tariff protection was anathema to those imbued with British classical liberalism. The 'free trade versus protectionism' debate had raged between the Australian Colonies in the 19th century and continued after Federation (cf. Birrell, 2001: 196ff.). The protectionists won the day, not least because population growth favoured urban centres with significant manufacturing employment.¹ Subsequently, the tariff regime was institutionalised in a formally detached edifice, the Tariff Board, in 1922.

After World War II, American hegemony outside the Soviet sphere (*Pax Americana*) condoned much discretion in national agendas. The pro-developmental forces reasserted themselves with greater vigour. World War and isolation brought a larger domestic manufacturing sector (employing over 25% of the workforce) and a coterie determined to maintain it. A novel federal manufacturing industry bureaucracy (Division of Industrial Development (DID)) was created within the Department of Post-War Reconstruction. Large-scale post-war migration enhanced the motivation for the maintenance of the sector's scale.

The balance of forces in the 1960s

Post-1945, boom conditions domestically and slow recovery overseas placed an intolerable strain on foreign exchange reserves. Comprehensive import licensing was introduced and maintained between 1952 and 1960. The dismantling of the import licensing regime (not least because of the complexity of its administration and abuse by particular interests) imposed immediate imports pressure on the manufacturing sector. The sector sought temporary accommodation, institutionalised in 1962 in a Special Advisory Authority (SAA). The rationale for the SAA was the lengthy time taken in Tariff Board deliberations, but this structure was messy and unsustainable.² The tariff regime itself came under attack.

Behind the fight over tariff protection was a deeper bureaucratic and political conflict, embodying a philosophical divide over economic and industrial policy. The divide was embodied especially in the respective *weltanschauungen* of the federal Treasury and Department of Trade (Trade and Industry after 1963).

There is no simple label for either of the departmental mentalities. Treasury's traditional role had been as keeper of the public purse, dependent on accountants. After 1960 (with war-experienced bureaucrats retiring), Treasury appointments centred on university-educated economists, lacking real-world experience. Treasury had by then appropriated a monopoly of opinion on economic matters. The general thrust was an opposition to policy activism. The essentially negativist mentality was complemented by a default optimist strand that involved an uncritical attraction to foreign investment and to the burgeoning mining sector.

In the opposite corner was the Department of Trade/Trade and Industry ('Trade') – the 'can-do' Department. Trade retained respectability in the bureaucratic firmament under economist John Crawford (1956–1960), but moved into direct opposition with Treasury with the appointment of insider Alan Westerman as Head in 1960. The Department's bureaucrats had hands-on experience as Trade Commissioners and as participants in gruelling negotiations under the General Agreement on Tariffs and Trade umbrella. They were exposed to the global economy's hierarchy and the brutal means by which the economic powers exerted their leverage. An axiom within Trade was the desirability of stabilising volatile markets. This mentality in action continued to be met with withering contempt by economic/financial journalists decades later. But Trade's contribution to trade strategies and the expansion of trade (imperative under then fixed exchange rates) was immense – a contribution little recognised.

Trade, under Minister McEwen and Secretary Crawford, engineered the 1957 trade treaty with Japan. This treaty was the foundation stone (with the abolition of export controls) of the subsequent boom in iron ore and coal exports. The treaty was one element in government initiatives to develop a sizeable resources sector, reflected in the creation of the Bureau of Mineral Resources under geologist Harold Raggatt in 1946 and in the centring of the new Department of National Development on a resources sector emphasis after 1951 when Raggatt became its Permanent Secretary. Government agencies actively pursued mineral exploration, resource extraction and processing.

Both Trade and Treasury had their Achilles heels. Predominant emphasis on the tariff is an unsatisfactory form of (manufacturing) industry policy. But predominant emphasis on *laissez-faire*, as in the Treasury 'line', is no industry policy at all. If Trade was contemptuous of the pressures of the market mechanism, Treasury was oblivious to its tyranny.

A 'third way' was in the offing with respect to the manufacturing sector, but it was readily snuffed out by establishment forces. The new DID, like much of the post-war bureaucracy carried over from war-time service, possessed an atypical range of personnel with exceptional talents and commitment. The DID was committed to assisting the sector towards sustainability, with greater dynamism and efficiency, and a range of programmes were in place towards that end (Jones, 2002).

The election of the Menzies government in December 1949 saw the DID relocate into the Department of National Development. Under cover of budgetary restrictions initiated to fight Korean War-induced inflation, Treasury and the Public Service Board (without governmental approval) emasculated the DID during 1952–1953 (Jones, 2001). A truncated and marginalised division was moved into the newly established Trade Department in 1956, but, by the mid-1960s (under the title Office of Secondary Industry), its capacity had long been eliminated.

The anti-tariff momentum

In the context of a heightened public awareness of the tariff protection issue, Trade and Industry Minister Jack McEwen appointed senior Customs bureaucrat Godfrey Alfred (Alf) Rattigan as Chairman of the Tariff Board in 1963. McEwen hoped for a compliant chairman (Glezer, 1982: 77). Rattigan turned out to be a 'fox in the henhouse', aiming to impose a more ruthlessly pared tariff regime and ultimately to dismantle the tariff system itself. A conflict ensued over who would determine the broad agenda, effectively of industry policy itself, behind the tariff apparatus – that of an 'independent' Tariff Board advised by 'experts' (read mainstream economists) or that of the government (essentially McEwen and his supportive bureaucracy) in the submission of 'loaded' references to the Board.

There ensued a civil war of an intensity and bitterness rarely seen in the public policy domain. Rattigan's agenda acquired a support team of journalists, many of them with tertiary economics degrees, for whom the tariff constituted an abrogation of well-established market principles. It was a holy war (McCarthy, 2000). A significant figure in this propaganda war was C.R. (Bert) Kelly, Liberal Member of Parliament (MP; 1958–1977). Kelly penned a long-lived column (as 'the Modest Member') attacking the then tariff regime. Moreover, he was a liked and not unimportant figure around Canberra.

The protectionists lacked a recognisable text-book argument and respectable fora, mostly talking to themselves. The asymmetry of the debate was considerable, although there was both academic and media³ opposition to anti-tariff forces.

A crack in the prevailing structure was established by the 1963 Vernon Report (driven by Committee member John Crawford), which recommended a particular focus on highly protected industries, and that future protection be subject to a 'benchmark' evaluation (Bell, 1993: Ch. 3).

Rattigan initiated the change in the 1966–1967 Tariff Board Annual Report, proposing a comprehensive 'Tariff Review Program' in which industries were ranked according to their level of protection and bands were created that imposed 'benchmarks' on the hierarchy. The bands were arbitrarily designated as follows: over 50% (high-cost), between 25% and 50% (medium-cost) and under 25% (low-cost). The measuring rod for this hierarchy was the 'effective rate of protection' (discussed below). Ultimately, industries in the top band were to be forced into lower bands or be closed down; those in the middle band were to be whittled down to 25% and those below 25% were to be supported (for now). This structure was hailed by Rattigan's supporters as 'rule-based' policy. It was legitimised by Section 17 of the Tariff Board Act 1921 which reads, 'The Board may on its own initiative inquire into and report on any of the matters referred to in sub-section (2.) of section 15 of this Act'.

Rattigan was prepared to bypass the longstanding principles and spirit by which individual goods and industries were treated in the elaborate Tariff Board procedures. Manufacturing spokesman R.W.C. Anderson⁴ was dismayed: here was the tariff policy being 'led by the nose by theorists' with their 'arithmetical cut-off points and other fancy economic theories' (quoted in Bell, 1993: 57). Rattigan was engaged in the enunciation and application of a 'shock doctrine', albeit before the method had a label.⁵

Another dimension of the 'shock doctrine' approach was the across-the-board 25% cut of all tariffs in July 1973 by the Whitlam Government. The rationale for cuts was the then high inflation and the attempt to divert domestic expenditure into imports. Rattigan chaired the Committee that considered and endorsed the proposal.

The Tariff Board was ill-suited to Rattigan's agenda. Its existence and procedures were premised on the legitimacy of the tariff *per se* and on tariffs differentiated across products/industries. Rattigan, in conjunction with John Crawford (then *éminence grise* at the Australian National University (ANU)), initiated the dissolution of the Tariff Board. Crawford (1973) gave legitimacy to the radical move in a report to the Labor Government. The Tariff Board was disbanded and replaced by the IAC, effective 1 January 1974.

The battle had effectively been won several years earlier. McEwen retired from politics in March 1971. The Australian Woolgrowers' and Graziers Council, representing the rural 'big end of town', was moving to exert greater influence on Country Party politics⁶ and on political influence in general. Labor was elected to office in December 1972, with Prime Minister Gough Whitlam committed to the Rattigan agenda.

Stephen Bell (1993) notes (replicating an industry statement in 1970), 'beyond simply deferring to the Tariff Board, the [Menzies'] government did not really have a policy for manufacturing development' (p. 61). Quite so. Successive Menzies governments had a broad policy agenda both for the rural sector (with a designated Department, Primary Industry) and for the resources sector (with a designated Department, National

Development). Post-war Labor's fledgling manufacturing industry bureaucracy had been emasculated. The tariff regime had become the default policy for manufacturing development, and it lacked strategic articulation. This asymmetric structure highlights why the sector panicked at the assault on that system.

Rattigan's economists

A core of academic economists provided the 'brains' behind the Rattigan agenda. Leslie Melville was one of a handful of intellectual giants who bestraddled academic economics and public policy between the Wars. Melville was appointed Chairman of the Tariff Board in 1960, but resigned from the post in 1963. Melville found inappropriate the attempts by McEwen and Westerman to impose Departmental policy on the Board's operations immediately following the abolition of the Import Licensing regime (Rattigan, 1986: 7). Melville was a talented economist, but he had long been immersed in finance and banking. His knowledge of industry was minimal to non-existent, so he was an anomalous choice as Chairman. But the ghost of Melville's presence provided legitimacy for Rattigan's new stance.

In a public lecture in January 1967, Melville (1967) claimed that it was time to move resources away from highly protected products/industries. Even marginal reductions in costs would allow industries across all sectors to develop, even to export. Here, Melville betrays a void of familiarity with industrial processes and naiveté on the politics of global trade. Price is the presumed dominant determinant of resource flows, reflecting Melville's general dependence on abstract reasoning and wishful thinking generalities.

Contemporary Tariff Board member Stewart Cossar claimed that Rattigan as Chairman remained for several years in the protectionist camp.⁷ Rattigan was demonstrably crudely protectionist on the 1966 chemical industry report (a high water mark of excess protectionism) as well as on a 'cycle saddles' inquiry (minor, but symbolically significant). Fellow Board member Lin Dudley claimed that a key figure in Rattigan's conversion was Tariff Board member Richard Boyer.⁸ Dudley estimates that Boyer, a resolute 'free-trader', was a go-between between proselytising economists and Rattigan. Links were also facilitated by Tariff Board chief of staff Bill Carmichael.

Max Corden is the spiritual father of the group. Corden acquired a doctorate from London School of Economics and Political Science (LSE) in 1955 and returned to Melbourne University in January 1958. Although he was interested in 'real-world' concerns, Corden's original analytical toolkit was essentially that of a *a priori* Marshallian neoclassical economics. Corden (1958) initially argued for a uniform tariff rate across the sector – a 'clean lines' idea that ran contrary to the tariff's then rationale, centred on 'made to measure' product-specific tariffs. Moreover, any attempt to implement such a proposal would have involved significant disruption to the manufacturing sector.⁹

Corden (2005) proceeded to develop the concept of 'the effective rate of protection'. The effective rate of protection (ERP) was intended to account for both the 'nominal' rate on the final product and tariff rates on inputs, to be used to rank the degrees of effective protection covering various products/industries. Corden saw the ERP as a second-best tool in a highly imperfect world, until those imperfections could be swept away:

Since 1983 the exchange rate has floated, and opinion in both Australia and many other countries has shifted to accepting the role of market forces and the benefits of (more or less) free trade. The process of getting rid of the whole of this complex, distorting, human-capital-intensive and time-consuming system has been gradual, and is not yet complete, but there is now less to measure, and less point in measuring it ...

I regard protection as a disease. For some years I specialised in the study of the disease, and of ways of reducing its adverse effects. In addition, I, and many others, have been advocating cures for the disease ... Once the cures have become accepted there is less need to study the disease, other than as an historical phenomenon. (Corden, 2005: 5)

Fred Gruen was another key member. Gruen (then at Monash University) was one of a bevy of agricultural economics academics (including Keith Campbell, Alan Powell and Ross Parish) committed to the deregulation of the then heavily regulated and subsidised rural sector. Gruen later (at ANU) played a significant role as the link between Rattigan's agenda and the incoming Whitlam Government and in propagating that agenda to a broader audience.¹⁰

Powell (Monash University) acquired particular significance as the progenitor of macro-econometric model building in Australia. Powell's general equilibrium models extended Corden's partial equilibrium analysis (embodied in the ERP concept). They were developed in an attempt to estimate the inter-industry impact of altering tariff rates, with the ultimate ambition to point to greater structural flexibility in the economy than pro-tariff forces had admitted. The well-publicised (albeit regularly criticised) ORANI model, attributed to Peter Dixon, derives from the Powell initiative. Corden moved to Oxford in 1967, and his mantle was taken up by Monash University's Richard Snape and by Snape's younger colleagues, Gary Pursell and Gary Sampson. Snape became a long-time senior official with the IAC and its successors, and his sometime student Gary Banks became a long-standing Chairman of the PC (1998–2013), with Monash students also joining IAC staff.

This tightly knit group, through Rattigan's authoritative position and will, effected a coup in destroying from within the Australian tariff regime. The group and their ideological and analytical inheritors have never ceased to engage in self-congratulation for their victory, as a matter of 'right over might' (cf. Banks, 2014; Robinson, 2000).

The vision

Behind the intellectual firepower of Rattigan's brains trust, the vision was formally simple. The efficient use of limited resources (and thus the enhancement of 'community welfare') requires that such resources flow to unprotected or lowly subsidised/protected industries from highly subsidised/protected industries.

The vision acquired substance belatedly in the IAC's first Annual Report, 1973–1974 (IAC, 1974: 17, 18). The low-cost industries to be valued are (predictably) in the bulk of the services, rural and mining sectors, but include selective manufacturing – processing of rural and mining produce and those 'based on skill, innovation, or design'.

There is a marked absence of recognition of how nations develop and how they (where national self-interest is the norm) interact in the hierarchical global political economic system. In particular, there is no comprehension of the 'rationality' behind why Australian

politics and the Australian economy with a significant manufacturing sector developed as they did.

Contemporary dissenting opinion

Rattigan and his academic and journalistic supporters dominated the media and ultimately captured the political arena, but their stance was not synonymous with all contemporary 'respectable opinion'. For example, Corden's articles in the *Economic Record* were met with criticisms from the academic community itself (Bernasek, 1960; Cameron, 1961; Firth and Hagger, 1959).

Of special significance was the debate concerning the concept of ERP, which the Rattigan group adopted uncritically. A critical literature arose domestically (from industry insiders and academics) that questioned the solidity of the ERP. The most comprehensive criticism of the ERP came from academic Neville Norman (1975) and a dissenting IAC Commissioner, one J.L. Sheaffer.¹¹ Sheaffer's dissent from his fellow Commissioners' vision, procedures' recommendations, received no exposure in the public debate. In addition, the Monash/ORANI macroeconomic modelling, premised on general equilibrium axioms implying optimistic outcomes on workforce redeployment, faced competition from Melbourne University's Peter Brain's 'IMP' model, based on more 'realistic' Keynesian/Kaldorian axioms (Brain, 1977).

The changing landscape after 1975

Immediately after the IAC was created, with its seeming intellectual legitimacy, political imperatives started to shift. In early 1974, the Labor Government (having enacted the universal 25% tariff cut) also moved to abolish quotas in the textile yarn and clothing industries. By June, imports were flowing in and orders to local firms were dramatically diminishing. The ready impact on small towns in northern Victoria is instructive. Four plants in Wangaratta and Benalla were rationalised or closed, retrenching over 200 workers.¹² The Government was thrown on the defensive and ushered in a compensation programme for retrenched workers.

Harbinger of the change was the establishment of the (Jackson) Committee to Advise on Policies for Manufacturing Industry (1975) in July 1974 and its multi-volume Report. The Committee expressed concern both as to the speed and character of adjustment of the IAC's agenda and its long-term objectives. Thus (1975: 162–163, 176; Ch. 7 in general),

Market forces and tariff policy are not sufficient to achieve the desired industry structure. Positive policies are needed to develop particular industries. (p. 176)

Although he was a member of the Jackson Committee, illness and then dissent led Rattigan to remove himself from proceedings and his name from the Report. Rattigan (1986) outlined his dissent in his book (257ff.). He viewed the Jackson Committee's orientation as providing a continuing vehicle for the reproduction of a cosy, less-than-transparent relationship between manufacturing vested interests and governmental authorities (he opposed consultation). To his dismay, the incoming Prime Minister, Malcolm Fraser, shared the views of the Jackson Committee.

The early 1970s was volatile. President Nixon abandoned Bretton Woods in 1971, ushering in the era of increasingly flexible and volatile exchange rates. The protective tariff is essentially dependent for its functionality on a fixed exchange rate regime. Rural recession was followed rapidly by a (brief) rural boom and a rare surplus on current account. The manufacturing sector was faced with both the 25% tariff cut and a revalued dollar. Then came the 1974 crash.

No one in authority or among the specialists understood the significance of the event. The Jackson Committee refers to 'the present economic slump' (p. 173). Rather, it was the end of the long boom, and a new era of perennial dramatic restructuring was ushered in. The 'proceed with care' grouping enhanced its numbers and gained increasing influence.

The IAC instead upped the ante. It attacked frontally its major 'enemies' – the highly protected automobile and textile/clothing/footwear industries.¹³ The IAC also continued to claim that large-scale economic restructuring is a constant factor, that the labour market is functioning appropriately and thus structural adjustment programmes are also superfluous (cf. IAC, 1974: 122ff.).

With rising unemployment, Whitlam himself had stepped back from being an unqualified 'Rattigan man'. Thus, on 25 November 2014, the media reported that Whitlam had instructed that high tariffs must not be reduced where there would be social or employment dislocation and had advised the IAC chair, Rattigan, that in future the commission must assess the social and locational implications of its recommendations (Rattigan, 1986: 233).

The extended crisis conditions were met by the incoming Fraser Government with extreme pragmatism. Strategy became oriented towards a 'slowdown' on tariff reductions and to reining in the IAC itself. One bold action was the establishment of a Bureau of Industry Economics in May 1977.¹⁴ The December 1977 federal election was fought partly on the defence of industry protection (and 'threatened jobs'). The returned Fraser Government amended the IAC Act in 1978 to force the IAC to adopt more expansive guidelines (Uhrig, 1983: 4.1). The Government also established the Study Group on Structural Adjustment, which reported (the 'Crawford Report') in March 1979. John Crawford exposed a variable disposition. Progenitor of the benchmark tariff regime on the Vernon Committee, god-parent of the hard-line IAC, Crawford now recommended the necessity for transition with caution. The IAC remained intransigent, even under new leadership. Rattigan resigned, due to illness, in 1976 and was replaced by ex-Trade bureaucrat William McKinnon.

Those forces supporting manufacturing industry realised that alternative means of restructuring and developing the sector had to be utilised. The new direction was first heralded in the Jackson Report. The Fraser Government moved to develop 'positive' measures to support the sector, including an investment depreciation allowance, research and development grants and export assistance. But the IAC (1982) also opposed generic industry support measures, recommending the abolition of those measures that the Fraser Government had established.¹⁵

The Uhrig Review of the IAC

Labor returned to office in March 1983. Some Labor constituents, notably manufacturing-based unions, pressed that something had to be done about the IAC. Would-be

Prime Minister Bob Hawke included in his election speech, 'The IAC must be required to play a positive role in preparing for growth, rather than managing the decline of manufacturing'.

In August, the Government established a review of the IAC, nominally under industrialist John Uhrig. The review reported in December (Uhrig, 1983). Some submissions supported unreservedly the IAC's record, notably the IAC's economist advisers, the federal Treasury and the recently formed National Farmers' Federation. But it is clear from the critical emphasis of the report that multiple submissions vented frustrations. Thus,

A view now seems to be widely held in industry that the Commission has a closed mind and that its analyses are based on a simplistic, unrealistic and abstract economic theory. (2.49)

The Report notes the increasing tendency during the Fraser Government years for IAC product/industry-specific reports to be sidelined (2.44). Adjustment and its mechanisms and costs were stumbling blocks (3.19–3.22, 2.54–2.55):

For most industries, it is not sufficient for the Commission merely to recommend a lower level of long term assistance and suggest that free market attrition provide the necessary impetus for restructuring. (3.22)

The IAC's guidelines required the Commission to pay attention to the problem of structural adjustment, but the IAC ignored this requirement (3.19, 6.4–5). Submissions from the Department of Industrial Relations and the Clothing and Allied Trades Union claimed that 'information on labour adjustment and mobility' had been supplied to the IAC for its investigations but such information had been ignored (2.37).

Legislation had not forced the Commission's hand (12.5). Without using the word, the Report recommended a transformation of the Commission's 'culture'. Yet the Report ignored the prospect that no such transformation would take place. The Report glossed over the problem of appropriate staffing. The Report implicitly highlighted that the IAC's operations were *not fit for purpose*. However, it was beyond the mandate of the Uhrig Review to propose recommendations commensurate with its findings – its terms of reference precluded it.

The Government's implicit stance was exposed when Industry Minister John Button appointed Bill Carmichael, intimate Rattigan collaborator, as Chairman in 1985. Button, contra reputation, assumed a pessimistic stance in his Ministerial brief. He was unsympathetic to some business leaders with whom he dealt. His vaunted industry plans were seen as essentially short-term props until such key industries were soon dismantled.

The Uhrig Report's envisioned scope for the IAC remained within the spheres of the secondary and primary industry. Rather than being checked, the IAC gradually acquired a mandate for the entire public sector itself and the entire gamut of economic regulations. The institutional reflection of this expanded mandate was the transformation of the IAC into the IC in 1990.¹⁶ But the mandate was already in place. The IAC (1989) inquiry into government (non-tax) charges is indicative of the green light.

No ‘picking winners’

The Uhrig Report noted (3.15),

... the Government is aiming to develop a more supportive environment for industry ... Such support is to be both general ... and, where appropriate, selective ... These include measures directed to the deliberate creation of comparative advantage. (2.24)

The ‘deliberate creation of comparative advantage’ – this constitutes an inconceivable concept for the (English language) orthodox economic mindset.

At precisely this time, the Commission was preparing a combined report on three areas – Computer Hardware and Software (and office equipment, etc.), Metal Working Machine Tools and Robots. The report appeared in February 1984 (IAC, 1984). The report is of broad significance because it was an occasion for an outline of general principles on industry support of any kind. The dissident Commissioner, J.L. Sheaffer, wrote a lengthy dissenting report on general principles supporting selective assistance (IAC, 1984: 16–28).

Sheaffer claimed that, under the IAC’s purist stance, the development of a capacity in elaborately transformed manufactures would be effectively impossible. Sheaffer outlined a rudimentary view of the cumulative process associated with industrial research, innovation and dynamism and the attendant interaction and mutual reinforcement of involved personnel. But there had been little cognisance within the Australian academic community of this ‘virtuous circle’ vision and thus no fertile bed on which such eminently reasonable propositions could take root. Sheaffer (IAC, 1984) noted,

If an environment is established which is receptive to change and this is complemented by innovative people, new technologies are likely to be adopted much more quickly than would otherwise be the case and it becomes the base from which further innovation proceeds. This accelerates adoption, thereby increasing the benefits. (p. 16)

The Commission’s ‘establishment’ thought otherwise, recommending that new technologies be purchased from overseas (IAC, 1984):

So long as we are unable to change the assistance policies of other countries, the most realistic and best prospect of enhancing Australian economic growth would be to encourage production of those things which reflect our comparative advantage now. (p. 5)

Sheaffer’s dissent was quarantined and the IAC continued on, unrepentant.

The dominant ideology entrenched and legitimised

The heavy engineering industry represents Exhibit A for the ongoing dysfunctionality of the IAC. The industry’s characteristics are specific: heavily dependent on government procurement for infrastructure development, projects generally large scale, manufacture on a discrete ‘jobbing’ basis requiring perennial product innovation and immense volatility in customer demand. The Australian environment added other specifics – some foreign

ownership with export franchise restrictions, family firms grown out-sized, often primitive management cultures and conflictual management–union/worker relations.

The early 1980s recession pushed the Australian heavy engineering industry into a huge downturn, with the loss of 25,000 jobs – one-fifth of the sector’s workforce. Simultaneously, dramatic transformations were changing the nature of the ‘product’ (the rise of integrated or ‘turnkey’ packages) and the rise of Asian suppliers (Japan and South Korea) as key forces in the industry – with substantial adverse potential for the Australian industry. The 1980s also witnessed the takeoff of large-scale infrastructure projects in the oil and gas industry (epitomised by the North West Shelf development). Would the domestic heavy engineering industry benefit from this development or would it be marginalised?

IAC involvement was exemplary in its comprehensive ignorance of the industry, unwillingness to learn and readiness to recommend the usual nostrums. However, tariffs were low in the industry and the problems lay elsewhere. Here is the IAC (1985) response (p. 11):

... the best prospects for the industry’s development would result from having an industry structure which is appropriate to the market requirements at any particular time. Given the variability in demand for heavy engineering goods and services, local producers will need to be flexible and able to adapt to emerging market trends. It is therefore crucial that industry restructuring take place as far as possible in response to market signals and are not distorted by government intervention.

In this instance, the IAC’s belligerent other-worldliness consigned it to irrelevance early in the concerted attempt to reconstruct the industry (Jones, 1993). By contrast, the BIE’s multiple reports demonstrated a detailed empirical understanding of the industry. The complex policy process to revive the industry involved partial mediation through the Labor Government’s new tripartite Australian Manufacturing Council (AMC) and the AMC’s industry-specific Machinery and Metals Engineering Council.

The successes and failures of this process are representative of the broad problems that beset functional industry policy-making in Australia and the adverse impact of the institutional structure of which the IAC is a symptom. Those lessons have yet to be learned.

The expanded domain of the IAC/IC led it further into arenas in which its personnel had no competence. In December 1990, Treasurer Paul Keating initiated a review by the IC to ‘identify impediments faced by business enterprise in obtaining equity and loan capital ... and advise on courses of action ...’. The IC’s 1991 report *Availability of Capital* is representative of this new era.

On government-owned banks, in particular (Ch. 11), the IC merely echoes the ideological thrust of the 1981 Campbell Report:

The Commission considers that there is no longer an economic justification for governments to retain ownership of banks, and supports the current trend towards privatisation. ... In this new environment, the Commission can see no need on economic grounds for government provision of financial services. (p. 209)

The dismantling of publicly owned banks has facilitated an environment in which corruption has flourished in the banking sector, especially in the wealth management arena and in small business and farmer lending.

A further phase followed in which the Commission was now making claims for the presumed widespread realised benefits of its reform agenda although the evidence was disputable. In August 1998, Treasurer Peter Costello initiated an inquiry by the now PC on 'the impact of competition policy reforms on rural and regional Australia'. The favourable judgment (PC, 1999), a foregone conclusion, is representative of this later phase.

Regarding banking services, the privatisation of the Commonwealth Bank, completed in 1996, eradicated the one bank that could have been compelled to continue to serve rural and suburban communities in the face of an exodus of bank branches. The specialist Commonwealth Development Bank was abolished in July 1996 following the completed privatisation of the parent bank.

In the period that the IC/PC formally had under its surveillance, a Rural Finance Summit was forced on the Government in June 1996, highlighting ongoing dysfunctionality in rural finance. The holding of a Regional Australia Summit (again under pressure) in October 1999 highlighted the reality of ongoing crises. The PC put the dissatisfaction in the bush and regions to an inadequate public relations endeavour. The PC failed to confront that its stance was discordant with the rural and regional populations' experience.

The ready strangulation of alternative perspectives

In and through what institutions would the economic brainpower reside? This was an issue that was generally fought out and evolved behind the scenes.

During the post-war conflict between Treasury and Trade (and Industry), the influence was shared – if incoherently. But Trade's influence waned with the resignation of McEwen in 1971 and remained insignificant under Labor.

Thus, the Coombs Royal Commission on Australian Government Administration (1976), established by Whitlam in June 1974, could report,

... one set of themes tended to recur. It was argued that the Treasury held a substantial monopoly as the source of economic and financial advice and that, partly as a consequence, it had developed an almost doctrinal attitude about the theoretical basis on which policy should be developed ... (p. 299)

... we consider it necessary that there should be within the administration a focus of knowledge and understanding of the structure of the economy as a whole which will balance and complement that of the Treasury. At present no such focus exists. ... We recommend therefore that there be a department, which might be named the Department of Industries and the Economy (DINDEC), having the capacity to concern itself mainly with the medium and long term aspects of the industrial structure of the economy, and to act as the prime source of advice bearing on these aspects of economic policy. (pp. 302–303)

Instead, *de facto*, the Department of Prime Minister, until Whitlam relatively small, was gradually expanded in size.

In a rare moment of courage, arising from frustration with Treasury, Prime Minister Fraser created a separate Department of Finance in December 1976. Finance forged an independent line to Treasury, albeit within constrained parameters. But by 1983, Finance and Treasury were essentially analytical/ideological twins and their continued separation lacked a rationale.

Labor did create new institutions, including the Economic Planning Advisory Council (renamed the Commission in 1994). Labor also made tripartite and expanded Fraser's AMC.¹⁷ Labor retained Fraser's Bureau of Industry Economics. Labor's creations produced some dissenting reports that diverged from mainstream opinion, but they readily all exposed flaws of narrowness, seemingly by design.

Contemporaneously, the Hawke/Keating Government was colonising the line industry Departments with officers schooled in the central agencies (Treasury, Finance, Prime Minister and Cabinet). Personnel with relevant industry experience were presumed to be tainted by such and had to be dispensed with. The then emerging 'philosophy' of managerialism heralded the era of a supposedly generic management capacity.

On coming to office in March 1996, Prime Minister Howard immediately abolished the AMC. In April 1998, Howard merged the attenuated EPAC and BIE (rather, dismantled them) into the IC, creating the PC. Thus, the PC is now the only official advisory body standing, with an open-ended brief. No other country tolerates such a proscription of policy analysis.

Concluding comments

The tariff regime that supported Australia's manufacturing sector was an inefficient vehicle. But the fundamental problem was the constrained developmental philosophy that this British dominion society acquired from its imperial parent and that was modified pragmatically over the years. The Tariff Board under Rattigan and its successors succeeded in dismantling the tariff regime but merely reinforced the constrained developmental philosophy and the policy structures that were and remain the root of the problem.

The entrenchment of the IAC/IC/PC at the centre of policy advice is not a product of a collective rationality that has managed successfully to triumph over vested interests. This elevated and unchallengeable status of the Commission has only one explanation – it has unquestioning bipartisan support. How did Australian politics come to this parlous state?

The Commission is only the most visible part of a dominant inflexible institutional and ideological structure, of which the central agencies of Treasury and Finance are an integral part. They have a formal status and brief (Treasury presides over all economic and financial advisory and regulatory agencies) that is beyond the capacity of their narrowly sourced staff. The tertiary economics syllabus is centred on an other-worldly theoretical paradigm that miseducates its charges – people who are generally destined for positions of influence. The media is this structure's public relations and propaganda agency.

The Commission has offered itself congratulations that it has helped remake the Australian economy as a watchword of 'productivity' (PC, 2003). Yet the Australian

economy remains perennially brittle in the face of global volatility. Its vulnerability is reflected in a permanent deficit on current account – a crude but meaningful indicator of its interaction with the global economy. For the last decade from 2003–2004, the yearly balance on current account has registered a deficit from AUD43 billion to AUD78 billion (Australian Bureau of Statistics, 2015). Year after year sees variations on a common theme.

Having paramount status for federal policy advice, the PC was predictably handed the investigation of the Australian automotive industry – a complex and highly controversial arena. Its report (PC, 2014) failed to acknowledge the substantial multiplier linkages regarding employment and technological development, condemning the industry and its beneficiaries finally to an inglorious comprehensive demise. This outcome was predictable, given the vision on which the IAC was constructed and which was reproduced unflinchingly in the Commission's subsequent incarnations.

A transcendence of dogmatic purity regarding policy options is imperative.

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Notes

1. The tariff served also as a vital source of federal government revenue, the income tax being then the prerogative of the States.
2. Albeit the Special Advisory Authority (SAA) and its replacement, the Temporary Assistance Authority lasted for 22 years.
3. Rupert Murdoch's flagship, *The Australian*, editorialised regularly against the Rattigan forces' barnstorming. This author has unearthed editorials to that effect between 1972 and 1984, with a concentration of such in 1977.
4. Federal Director of the Associated Chambers of Manufactures of Australia (ACMA).
5. The internecine conflict at the Tariff Board and the propaganda war against McEwen and the Trade Department are summarised in Jones (2000). A Tariff Board colleague, Lin Dudley (ex-forestry/paper products), was contemptuous of Rattigan's approach. In an interview in Canberra on 18 March 1996, Dudley claimed that Rattigan

... collected evidence from persons outside the Board, he divulged confidential evidence given to the Board by industry. Sent it to economists at Monash [University]. Got opinions from them, and [it was] never given back to industry for them to rebut.

Dudley claimed that he and fellow Board member Gerard Hampel (ex-BHP) and a third Board member, Stewart Cossar (rural representative), objected to Rattigan's *modus operandi*. The appointments of Dudley and Hampel were not renewed at the end of their first 5-year terms during 1970–1971. Rattigan gives his version of this conflict in Rattigan (1986: 108ff.).

- Rattigan accused the dissenters of lacking independence, being hand-in-glove with the manufacturers' lobby.
6. The AWGC formed the nucleus of the National Farmers' Federation, established in 1979, with an essentially 'economic rationalist' orientation.
 7. Interview with Stewart Cossar, Canberra, 12 April 1996. See also Glezer (1982: 79). Cossar was appointed by McEwen to the Tariff Board in 1961 and remained on the Board until 1981.
 8. Interview with Dudley, Canberra, 18 March 1996.
 9. Corden's proposal, adopted from contemporary debates concerning alternatives to import licensing, was criticised at that time by Miloslav Bernasek (Bernasek, 1960).
 10. Gruen became a key adviser to Whitlam and was the person most responsible for the 1973 25% tariff cuts. Gruen organised an Australian National University (ANU) fellowship for Rattigan, by which Rattigan's professional autobiography was written (Rattigan, 1986). Gruen wrote the preface to that book.
 11. See Sheaffer's general critique of the effective rate of protection (ERP) and the Commission's inconsistent and hypocritical use of it (Industries Assistance Commission (IAC), 1984: 9–16).
 12. Figures from the *Wangaratta Chronicle Despatch*, 3 June, 19 June and 21 June 1974.
 13. The then Victorian Premier Rupert Hamer referred to the IAC as the 'Industries Assassination Commission' in criticising the IAC's ongoing draconian recommendations for the textiles clothing and footwear industries (*Melbourne Sun*, 21 February 1980).
 14. The establishment of the BIE was merely replicating that of comparable bureaux for agriculture and resources established by Labor during World War II.
 15. Accordingly, the IAC attempted to expand the ERP concept into an 'effective rate of assistance' indicator – encompassing all forms of assistance whether direct or indirect.
 16. The Industry Commission (IC) began operation in March 1990. It was formed from a takeover of the Inter-State Commission and the Business Regulation Review Unit into the IAC.
 17. The Council, a small advisory body of key manufacturers, had been in existence under several labels since 1958.

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