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Industry Policy under Economic Liberalism: Policy Development in the Prime Minister's Manufacturing Task Force

Ian Hampson*

Abstract

The sudden decline in Australian manufacturing associated with the current resources boom necessitates a renewed examination of the foundations of industry policy. Since the reforms of the 1980s, industry policy has been characterised by an economic liberal approach, the purity of which has been compromised by political pragmatism — particularly evident in the continued support for the auto industry. This article examines the issues raised by industry policy, and the history of industry policy in Australia, as a context for a review of a Report recently released by the Non-Governmental Members of the Prime Minister's Task Force on Manufacturing. This review finds useful proposals within the document, as well as a strong statement of the need for interventionist policy, albeit buried in the main text and an appendix. That this discussion is not front and centre in the Report's presentation indicates ongoing sensitivity about the main choice in industry policy — whether the government should selectively intervene, or leave the organisation of industry to the market.

JEL Code: L5

Keywords

Australian industry policy; economic intervention; industry policy.

Introduction

Released in August 2012, 'Smarter manufacturing for a smarter Australia' is the Report of the *Non-Government* members of the Prime Minister's (PM's) Manufacturing Taskforce (hereafter the Report). This article aims to examine and discuss critically, in context, the Report's analysis and proposed policy responses

* Industrial Relations Research Centre, The University of New South Wales, Australia

to manufacturing decline. The terms of reference of the report are detailed in section three of this article: broadly, they were to consider the urgent problem of manufacturing decline and make recommendations to address it. The Chair of the PM's Manufacturing Taskforce was the PM, Julia Gillard, and the Deputy Chair was Industry and Innovation Minister, Greg Combet. The Task Force included eight members of the Australian Labor Party (ALP) government, from, *inter alia*, the portfolios of Trade and Competiveness, Finance and Deregulation, Employment and Workplace Relations, and Treasury. There were eight industry representatives from diverse corporations, including GM Holden, Boeing, and One Steel, as well as the Australian Industry Group (AIG), a leading employer association covering manufacturing. There were six union representatives, from the Australian Council of Trade Unions (ACTU), Australian Manufacturing Workers' Union (AMWU), and others. In addition, there were three representatives of the science and technology community. Issues were addressed through several working groups.

The challenges facing Australian manufacturing are well known, and detailed in the Report. The resources boom has caused currency appreciation, undermining manufacturing competitiveness as well as drawing scarce skilled labour to remote regions, thereby giving rise to uneven development. Manufacturing employment has declined from 1,078,900 people in 2000, to 953,300 people in 2012, with 106,775 jobs lost in the past four years (Report: 20–26). The rapidity of this decline is thus more than the continuing shift from manufacturing to services that characterises advanced economies; it threatens whole industries, sectors, and the workforce capabilities on which they depend. As the Report argues, such rapid decline can lead to a loss of 'critical mass', and certain of these industries are unlikely to return should market conditions become more favourable (Report: 3). The consequences could be economic vulnerability associated with a narrow economic base dependent on fluctuating commodity prices, permanent loss of capabilities and employment opportunities, and ultimately economic decline. Despite the seriousness of the issues, a policy response is very difficult, because industry policy is embroiled in politics.

Manufacturing industry policy has been controversial in Australia since even before the Whitlam Labor government's 1973 across the board tariff cuts signalled the end of the previous era of largely uncontested industry protection. Since the Hawke-Keating period of Labor government (1983–1996), the 'official' discourse around industrial adjustment policy has been resolutely economic liberal, although characterised by a certain pragmatism, as evidenced in the Government's continued 'co-investment' with the auto assembly industry.

Selective industry policy as a concept has been discredited by its association with the broad-based protectionist policies of the past, and has accordingly been airbrushed out of the policy discourse since the rise of economic liberalism. The background to the Australian debate, discussed briefly in the next section is that industry policy is inherently political because it goes to the issue of control of investment in a capitalist political economy. Selective industry policy has played a supportive and effective role in the rise of certain late industrialising states — including some of Australia's competitors in Asia. This raises the question of why such policies should not be deployed in Australia.

That a separate *non-government* report was commissioned implicitly acknowledged that getting agreement between the broader policy community and the Government on the policy approach to manufacturing industry would be more difficult than its main term of reference: to 'establish a shared vision for the future of the manufacturing sector'. Assessing the Report's structure, as well as reading between its lines, one can discern divisions between the political interests represented on the Taskforce; thus, like many such documents, the Report contains compromises and tradeoffs. The fundamental policy issue — whether, and if so how, to intervene selectively to support industry — was not foregrounded in the document, but discussed deep in the text, with justification for selective industry policy buried in an appendix. This article thus argues that the content and structure of the Report was constrained by a sense of the limited possibilities for industry policy within an economic liberal policy framework.

To contextualise these arguments, the next section draws some threads from debates in the international literature about industry policy. The following section two traces the history of the Australian debate, arguing that industry policy has tacked between political pragmatism and economic purity, with the latter in the ascendant since the Hawke-Keating White Paper of 1991 (Department of Prime Minister and Cabinet 1991). When in opposition, former ALP leader Kevin Rudd fleetingly expressed a preference for industry policy (Conley and van Acker 2011: 511). Nevertheless, even with the ALP in power since December 2007, liberal economic policy stances have returned, albeit after a brief moment of questioning immediately after the Global Financial Crisis (GFC). The third section analyses the Report, showing how it reflects tensions within the debate about industry policy. The subsequent section points out ways in which the terms of the industry policy debate have changed, potentially providing guidelines for future policy development.

Industry Policy: The Early Debate

Industry policy is sensitive because it goes to fundamental power relations in capitalist society, as well as affecting the distribution of economic resources between groups of people. Especially sensitive is the relation between the state and the economy, and private investment prerogatives. Ideologically, economic liberals prefer minimal government — a 'nightwatchman state', in Nozick's (1974) memorable formulation — and that decisions about the deployment of economic resources be made by individuals, following their own (understanding of their own) interests. Advocates of industry policy argue, on the other hand, that economic development should not be left to market forces, and that the government should intervene to purposefully guide industrial and economic development, and build its capacity to do so (Katzenstein 1985; Johnson 1982; Ewer et al. 1987). Since so many arms of policy are involved, it is desirable that a powerful central institution take responsibility for ensuring 'policy interconnectedness' (Wilensky and Turner 1987).

Industry policy is also political because it strongly affects the economic fortunes of groups of people. As Zysman (1983: 229) argues

> Industrial adjustment — changes in who makes what, and how, in response to new market or technological conditions ... poses an adjustment problem — who will bear the costs and who will reap the gains? A workable settlement requires a resolution at the electoral government level, and also in the arena of producer institutions. Stable government policies and stable rules about financial, industrial and labour markets are an indication that such a settlement has been reached.

The conflicts raised by industrial change can be resolved in one of two ways. Either groups that bear the costs of change can be excluded from interfering with policy; or a settlement between the groups affected by change can be negotiated (Zysman 1983: 229). McKay and Grant (1983: 1, 8–11) argue,

> a coherent industrial strategy appears to depend on socio-political conditions which have been present in some countries, but absent in others, such as a broad acceptance among political elites of the need to play an active part in helping industry to adapt to change and the existence of good communications between political/bureaucratic and economic actors, including a broad acceptance by private investors of the need for government intervention.

If these writers are correct, then some countries are institutionally and politically better predisposed to industry policy than others. From the 1980s researchers have explored the institutional conditions of the 'competitiveness', of 'varieties of capitalism' (Hall and Soskice 2001; Katzenstein 1978). Chalmers Johnson's (1982) magisterial study showed the role of the 'developmental state' in the rise to economic dominance of post-war Japan. The powerful central Ministry of International Trade and Industry (MITI) played a policy coordinating role, including selecting industries for development and channeling resources into them. National savings were aggregated into large blocks of capital that were made available to industries conditional on performance targets. Unions were subordinated as an alliance of the state, the United States (US) cccupying forces, and employers countered early post-war militant left tendencies by restructuring industry unions into compliant enterprise unions. The growth of Japan, and its challenge to US economic domination, was attributed to this confluence of forces, registered in the literature as 'corporatism without labour' (Pempel and Tsunekawa 1979; Hampson 1994).

Even more powerful statist models were soon available to the advocates of intervention. For most of the long boom, the Republic of Korea (ROK) was a military dictatorship, demonstrating that successful capitalism is not necessarily associated with democracy. Singaporean development also took place within a political configuration called 'authoritarian corporatism', with labour militancy contained by the state, attracting footloose multinational capital for light manufacturing, and thereafter, moving up the value chain (Johnson 1987; Deyo 1989; Bello and Rosenfeld 1990). A more attractive (to organised labour) narrative emerged from Scandinavia. The 'small states' of Europe and Scandinavia were characterised by their open exporting economies. Policies of 'domestic compensation' prevented the burden of adjustment being carried by one sector and shared it around (Katzenstein 1985). Sweden, a small nation of eight million people, grew rapidly due to these polices, and a powerful trade union movement helped shape economic intervention (Hampson 1994).

In this 'manufacturing competitiveness' narrative, the English speaking, 'liberal' states were portrayed as the losers. A genre of American literature explained American manufacturing's decline in terms of unfavourable institutional conditions, in particular the terms on which capital was made available. These imposed short time frames on decision making, denying American manufacturers the ability to take a long-term perspective on manufacturing strategy (Hayes and Wheelwright 1984). The type of manager US business schools turned out by was also a major factor in the short-termism and career hopping associated with manufacturing decline (Hayes and Abernathy 1980).

In Britain, the decline of manufacturing was explained by reference to the institutions in which manufacturing was embedded — the finance sector which imposed short time frames and the pressure for quick return on manufacturing firms; the inactivity of government which could potentially have used such mechanisms such as procurement to support local industries; the poor abilities of management; and the industrial relations structures and strategies of organised labour (Williams et al. 1984). Obviously such a list could be extended, for example to include the training and skill formation system.

Yet the attempt to associate whole types of polity with economic success was doomed to failure. Business system theory (Whitley 1999; Quack, Morgan and Whitley 2000) ultimately rejected the idea that *national* manufacturing or economic success could be associated with any particular institutional configuration, and for two reasons. First, the former models themselves struck problems, revealing the argument's ahistorical nature. In the early 1990s, Sweden fell into crisis, and Japan entered the 'lost decade'. The so-called Asian Economic Crisis of 1998 caused some commentators to attribute the economic demise of the 'Tiger' East Asian economies to an interventionist state, and to 'crony capitalism'. Secondly, and more importantly, business system theory noted how some national political arrangements were better suited to certain forms of economic activity than others (Quack et al. 2000). For example, Britain may have been less well suited to manufacturing, but was a successful financial centre.

The inquiry thus shifted to particular sectors of industry — not whole economies or manufacturing sectors. In addition, business systems, or varieties of capitalism, can change; for example, as described below, tariff protection was fundamental to the Australian 'historic compromise' and as it has been removed, the whole political economy has fundamentally changed (Castles 1988). In Australia, as the next section details, the current settlement around industrial adjustment was imposed on organised labour and other producer groups by a Labor government through the 1990s, but not entirely successfully.

A Short History of Australian Industry Policy

This section provides a background to the analysis of the PM's Taskforce Report. It argues that Australian industry policy has oscillated between simple protectionism and liberal economic purity. Any sophisticated, developmental, active and interventionist industry policy is too easily tarred with the protectionist brush, and debate is stymied. As will be argued in the next section, the Report has resiled from any direct and overt challenge to economic liberalism, although key ingredients of such a challenge do exist within the Report.

Protectionism was deeply embedded in the Australian social settlement — called variously 'new protection' or 'domestic defence' (Castles 1988). This comprised high tariffs, established as a guarantee that the wages paid to working men reflected their family 'needs', as established in the Harvester Award and related determinations of industrial tribunals. Behind the tariff wall, a broad range of capabilities flourished, particularly during the Second World War. Government ownership of Australian Defence Industries, the Commonwealth Bank, the national airline (Qantas), and public utilities was important for the management of the economy (Ewer et al. 1987).

The role of government in the economy is contested. In Australia, ideological purity vied with political pragmatism, for example when the (conservative) Liberal Party, under Robert Menzies, allowed its coalition partner, the Country Party, to distribute 'industry assistance' to rural constituencies in order to cement political majorities (Bell 1994: 254–258). State governments also contributed to a fragmented industry sector, which could not withstand the rising pressures of economic crisis in the late 1960s and early 1970s. The collapse of the Keynesian consensus in the international sphere had its repercussions in Australia, as simultaneously rising inflation and unemployment led to a rethink of the prevailing economic consensus (Whitwell 1986). The new Whitlam Labor government was forced to break with traditional protective policies. Its 25 per cent across the board tariff cut of 1973 was aimed at rationalising the structure of industry by imposing competitive forces from outside the economy (Ewer et al. 1987: 21). However, this 'rationalisation by competition' program had to confront the political realities of unemployment, causing Whitlam's (Liberal) successor as PM, Malcolm Fraser, to indicate that if his government had to choose between 'jobs or dogma' it would choose the former (Warhurst 1984: 54; Bell 1994: 258). The implementation of economic rationalist policy would have to await a new and historically unusual political coalition.

The ALP took office again in 1983 against a backdrop of economic crisis and industrial relations unrest. The incoming PM, Bob Hawke, claimed that his government could implement a new political approach owing to its 'special relation' with the union movement. In this 'corporatist' arrangement, unions traded off wage restraint for influence over policy — especially industry policy — as detailed in an 'Accord' (Ewer and Higgins 1986; Ewer et al. 1987). However, the government instead enacted a 'dry' liberal economic reform program — floating the dollar, lowering tariffs, deregulating financial markets, permitting the entry of foreign banks, removing many controls on foreign investment, and undertaking the great privatisations — of the Commonwealth Bank, of Qantas, and of public utilities (Ewer et al. 1991; Hampson 1994, 1996).

Again, certain unions, disarmed by their inability to deploy more conventional industrial relations artillery due to the Accord's wage restraint, instead prioritised policy development. The Metal Trades Federation of Unions (MTFU) (led by what is now the Australian Manufacturing Workers' Union or AMWU) put forward a *Policy for Industry Development and More Jobs* (MTFU 1984), which referred to the industry policy exemplars of the day — Japan and the Asian Tigers. In line with contemporary policy instruments overseas, it proposed 'industry development agreements' that would make government financial assistance to manufacturing industry conditional on meeting investment and performance criteria (MTFU 1984: xxiii–xxiv). The ALP rejected the document, as the distinction between this kind of activist, conditional industry policy and the unconditional industry assistance of the past was difficult to explain and easy to obscure. Employers were certainly not about to give up any of their prerogatives, and economic liberals colonised key economic policy making institutions in the bureaucracy. Thus Capling and Galligan (1992: 48, 117–119) emphasise the continuity of the ALP industry policy with that of the former Fraser government. The Button Car Plan for a gradual reduction of protection was within this 'rationalisation by competition' approach. Eventually, it came to look like simple protectionism — albeit under the contemporary label of 'co-investment'.

A second union document — 'Australia reconstructed' (ACTU/TDC 1987) — focused less on industry policy and more on the 'soft' aspects of industry development: skills formation; award restructuring; workplace change; and training reform (Hampson 1996). The radical proposals for collective capital formation, and union involvement in industry policy decision-making gave way to a reform program about training, skills and 'international best practice' — the model of which was Japanese lean production and the Toyota Production System (Dertouzos et al. 1989). Professor Ross Garnaut's (1989) report argued the desirability of accelerated tariff reduction to rationalise industry and this shaped the Hawke Government's March 1991 Economic Statement (Department of Prime Minister and Cabinet 1991; Capling and Galligan 1992: 155–158). Resistance from the union movement was attenuated by the progressive decentralisation of industrial relations to the enterprise level, weakening the structures of unionism and indeed ultimately pushing the burden of industrial adjustment onto organised (and increasingly dis-organised) labour (Ewer et al. 1991; Hampson 1996).

George Megalogenis (2006) aptly uses the term 'Keating-Howard' model to register an essential continuity regardless of party in power, in many arms of policy, including industry policy. After 1996, there was a return to the policy oscillation of the past: the Liberal electoral platform promised an interventionist industry policy, but the party recanted when elected in that year (Jones 2006). From then, John Howard's Liberal government rejected recommendations for further tariff cuts in the automotive and textile clothing and footwear (TCF) sectors, thus disappointing some economic liberals, but maintaining the electoral support that would lead to more politically favourable outcomes (Conley and van Acker 2011: 509). On the other hand, Howard reduced the research and development (R&D) tax allowance from 150 per cent of expenditure to 125 per cent and ignored some recommendations to attract foreign investment by selective incentives from the generally 'dry' Mortimer inquiry (Mortimer 2007). The resulting policy, 'Investing for Growth', was, according to Jones (2006: 1), a 'grab bag of policies with no evident underlying motif'.

The orthodox view of the Asian economic crisis supported a return to broad based macroeconomic policy — 'getting the environment and the economic fundamentals right'. This reflected the fact that the former exemplars of selective industry policy — the Asian Tigers — had entered deep economic crisis in 1997–98, allegedly as a result of state interventionism and 'crony capitalism'. However, when advised to cut tariffs further in order to rationalise the car assembly industry, the Howard Government declined. As Conley and van Acker (2011: 511) put it

> The Howard Government opposed the idea of industry policy, but like its predecessor it continued providing assistance to various industries and postponed tariff cuts for the vulnerable car and TCF industries.

The Report of the Non-Governmental Members of the Task Force

Against this background, we explore the policy response proposed by the Non-Government Members of the PM's Manufacturing Task Force. The terms of reference were: to establish a shared vision for the future of the manufacturing sector; to respond to the immediate challenges of a high exchange rate, technological change and global competition and trading conditions; to provide advice on how to make the best of existing government policies and programs; and to make recommendations to capture the opportunities and respond to the challenges arising from the Asian Century (Report: 1). It is noted here that the terms of reference do not contain an invitation to propose new policies, rather to make the best use of existing ones.

Instead, the Report proposed a 'policy agenda' consisting of five policy directions. The first of these was

> to address the urgent challenges facing many parts of Australian manufacturing, and the real and imminent danger of large losses of jobs and capabilities. (Report: 3)

In addition, its policy agenda aimed to 'reboot' productivity growth, to encourage investment, reduce the costs of doing business, and target demand stimulus. It also proposed initiatives in transport, broadband, energy, regulation and taxation. It proposed a number of measures to improve 'underlying competitiveness', include better alignment between research activity and the needs of manufacturing through better collaboration; to help Small-Medium Enterprises to grow with the support of an upgraded 'Enterprise Connect scheme; and to sustain productivity growth through 'a new national conversation' between industry, unions and government around 'Smarter Workplaces' (p. 3). The agenda was aimed at building a new and stronger generation of small through to large manufacturing businesses with the management and capabilities to compete and succeed in the global economy. It sought to make the AUD (Australian dollars) 9.4 billion in Commonwealth Funding for Research more directly applicable to manufacturing needs.

Overall, however, the report appears somewhat directionless, and indeed makes a plea for government leadership:

A useful discipline would be for the Commonwealth Government to set some bold and ambitious, but also tangible and realistic, goals for the years ahead. … [W]hat is missing from the current debate is a coherent statement of purpose, strategic intent and policy direction that puts forward practical answers to three key questions:

- What role do we see manufacturing play in Australia's economic future?
- What is the mindset that can prepare and position manufacturing for the challenges and opportunities ahead?
- What policies do we need to modify or create today? (Report: 6–9)

The Report sees a major challenge for the Gillard Government as lying in the provision of this policy leadership.

> Where global competition demands it, governments need to send the clear signal to multinationals and to other governments that Australia will compete with a coordinated whole-of-governments approach — that we are serious in our intent to build critical mass around our comparative and competitive advantages. (Report: 70)

However, it remains moot whether Australian governments are willing to deploy the full range of interventionist measures used in other countries. Strategic interventionist industry policy was not discussed 'front and centre' in the Report. In a section entitled 'International policy perspectives', the exemplary success stories of industry policy were conspicuous by their absence. This section did however refer to a range of innovation and manufacturing policies but firmly from an 'innovation' perspective. This entailed 'employing demand-side tools to prompt innovation for industry and societal purposes, such as health, sustainability, and resource and national security'. Emphasis is placed on strengthening the non-R&D drivers of innovation, especially intangible managerial and design capabilities … ; to 'ensure that innovation is recognized as a shared responsibility' (Report: 55).

The issue of interventionist industry policy does appear in Section Five, on policy directions, where the Report proposes:

> that the Commonwealth bring forward and increase investments in infrastructure projects to stimulate demand. Given the engineering skills shortage, this approach will need to be targeted at particular sectors and regions. This will help ensure that Australian firms are able to access work in the short term as cyclical pressures subside. This policy should be coupled with appropriate local content and Australian Industry Participation provisions to support projects with a high need for Australian-produced components and manufactures. (Report: 61)

Yet the document declines to elaborate on the specifics, instead 'strategic investment' policies are discussed under the heading of Business Tax Reform. The aim of this is to encourage business investment and re-investment in manufacturing, which could be done (so the Report argues) by a general lowering of the business tax rate. However, since this is unlikely, the Report proposes:

> more targeted arrangements such as accelerated depreciation to reduce effective tax rates on manufacturing businesses could be put in place … a selective investment incentive focused on supporting niche opportunities that would not proceed without support and for which there is strong global demand. (Report: 64)

The arguments in favour of selective intervention are relegated to Appendix 3, entitled 'Policy Observations' (Report: ix). This argues for supporting selected industries, because the current economic conditions (resources boom, high dollar, eroding manufacturing competitiveness, dispersal of skilled workforces) are likely to give rise to a permanent loss of capability unless countered by policy. While the market is said to produce sub-optimal results where the terms of trade favour imports. As a result there are challenges for program design. Selective assistance should meet certain criteria such as maximising benefit to 'the Australian community as a whole' (Report: xi). An expert body would screen the myriad requests for industry assistance that are emerging in the present crisis.

> A rigorous strategic approach to providing investment support, based on the recommendations of an expert body, appears to us to be preferable to an ad hoc policy where political considerations and the 'squeaky wheel' principle may be at least as important as projected community benefits. (Report: xi)

Although the arguments for selective intervention do not appear in the main body of the Report, the latter does contain a number of proposals for the support of particular industries. The policy agenda announced at the Report's beginning includes building a world class food industry, and winning the lion's share of the $AUD25 billion plus to be spent on the next generation of submarines and the upgrading of the existing fleet — this latter proposal would also support the growth of a marine engineering industry (Report: 4–5). Australia also has, the Report claims, existing strengths to build on in health and defence — including aerospace (Report: 43). The latter, along with automotive, manufacture, contains considerable potential for the growth of a components industry.

Instead of pressing the case for industry intervention, which would run against the grain of economic liberal policy predilections, the Report presents a number of 'soft' proposals. These are mostly set within an innovation perspective, shorn of the tough politics of interventionist industry policy. They are, in the order in which they will be explicated and discussed below: the development of industry 'clusters' and 'innovation hubs'; precise mechanisms to make research activity more relevant to industry needs; and a number of proposals about skills development, 'smart' workplaces, and collaborative culture which hark back to the 'new workplace culture' debates of the 1990s.

Industry clusters are a staple of the innovation literature:

> Clusters (and networks) can support large and small firms to pool and access various specialised resources, such as investment, facilities and specialist skills. They can make it easier to transact efficiently, share technologies and knowledge, start new businesses, and access and apply the ideas of others. (Report: 41)

This is best achieved through a regional approach to development, as clusters of industry tend to emerge in one geographic location. Once they achieve a critical mass, they provide a support for new entrants, and their members engage in 'complex forms of competition and cooperation' (Hirst and Zeitlin 1991) — to deploy somewhat dated rhetoric. The weakness of the earlier 'post-Fordist' or flexible specialisation approach to industry clusters was that it was assumed that they operated without reference to central government policy processes, which must be responsible for such things as national qualifications systems, and so on. The Report notes, quoting Roy Green, that:

> A key challenge, with particular salience for Australia, is to link foreign direct investment (FDI) to the development of clusters and networks, providing local enterprises with a platform to penetrate international markets while enhancing the value of the FDI subsidiaries. (Report: 42)

It goes on to point out that competition in these areas is intense, as other governments offer significant financial and facilitative support for large-scale clustering efforts. Implicitly, therefore, governments need to play a role in the development of these regional industry clusters and their insertion into global supply chains. This is because, according to the Report, clusters benefit the wider economy by higher wages and jobs growth, stronger economic performance, and nurturing new and already existing industries (Report: 41–42).

The Report rejects the 'linear', or 'science push' model of innovation, instead emphasizing that innovation is done by business — 'the private sector, meeting consumer needs' (Report: 52, 64) — and eschews the role played by governments in the growth of such firms as Airbus, Boeing and Matsushita. It argues that Australian manufacturing firms and research organisations — chiefly the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and universities — have dysfunctional relationships, which impede them from pooling their resources or, more precisely, deploying academic and research expertise on real world issues relevant to manufacturing. One significant problem here is that the reward structures for research are misaligned with the requirements of manufacturing firms. Academic researchers seek publication in high ranked journals, from which significant rewards flow. This enables their research to be internationally positioned within the research community, but it may lack practical application to real world problems. Accordingly, the Report proposes that academic research should be weighted for impact and application, and that this weighting should be reflected in the funding formulae for research institutions and universities (Report: 69–70).

The Report also makes a plea for 'smarter workplaces' (Report: 81ff) — indeed it proposes a new national partnership to that end, as well as overcoming existing weaknesses in people management (Report: 53), and management's short-term bias (Report: 71). The aim of this partnership would be to build the managerial culture and workforce skills to support the innovation culture that is necessary for modern manufacturing workplaces. The role of government here is to 'empower' industry and union representatives to develop the new capabilities to build new high performance workplaces:

> High performance workplaces are characterised by a set of shared values and beliefs where people welcome and seek to introduce change and innovation, where leaders care for their employees and foster collaboration, and where there is an ambition to deliver results and a focus on achieving goals. (Report: 53)

This is reminiscent of the 'new workplace culture' proposals of the 1990s — complete with 'new mindsets' to 'support constructive relationships within workplaces, research organisations and government agencies — and across all three' (Report: 6). Parallel to this are a number of proposals around skills development because:

> Skilled workers with scientific, managerial and creative skills fuel innovation, develop new products, processes, markets and inventions, and find new ways of using existing ideas. (Report: 53)

Yet the proposals for skills development focus on adjustment. They include a 'skills training allowance' to support displaced workers; the development of specific skills and job retraining programs in conjunction with key unions for a particular industry facing structural adjustment; mapping workers' skills against market opportunities; relocation support; support for early retirement; and support for setting up your own business.

The overall conclusion of this section is that the Report of the Non-Governmental Members of the PM's Manufacturing Taskforce outlines a mildly interventionist approach to manufacturing industry, making some useful proposals. However, although it pulls up short of recommending a strongly interventionist approach to industry development in its foreground, the basic lineaments of such an approach are discernible, but buried in the text, and an appendix. This reflects the politics of industry policy development — that a policy culture which emphasises market solutions consigns interventionist approaches to the underground. Those in charge of the Report's presentation clearly did not want this issue to be front and centre. Like many such documents, the style and content have been shaped for and by politics.

The Government initially welcomed the Report on 16 August 2012, but in doing so, made clear it was not going to consider one of its key recommendations (R. 19) — to support an independent investigation of the Australia's Sovereign Wealth Fund. Such an investigation would have politicised the investment function, and questioned the institutions and processes that allocate capital in Australia.

The Changing Environment of Industry Policy

Australian industry policy appears not to have caught up with change in the international arena. If *The Economist* (2010) is to be believed, there is a 'global revival' of industry policy in rich countries, including France, America, Japan, Germany, South Korea, and China. A conceptual revision took place in the 1990s, when the World Bank (1993) acknowledged that selective industry policy did indeed play a role in the economic ascendancy of the Asian Tiger economies. However, since then, much effort has gone into justifying limiting the state's role to providing a stable macroeconomic environment, to opening the economy to foreign competition, and to providing essential public goods like infrastructure and human capital (Lall 2004: 2). The Global Financial Crisis has caused some questioning of excessive reliance on market forces, but the precise role of the state remains contentious. As Rodrik (2004) has argued, there has been a certain softening on both sides, as advocates of intervention develop a healthy respect for the power of market forces and economic liberals concede that, at least in some instances, interventionist industry policy has driven successful development.

Yet it remains true that, perhaps especially in Australia, any efforts to focus state policy on particular industries run into a strong domestic economic liberal constituency and the revised 'rules of the game' negotiated in the Uruguay round of the General Agreement on Tariffs and Trade (GATT) which ushered in the World Trade Organisation in 2003. Australia was a leader in the GATT negotiations, and in the international jawboning around WTO rules. Part of Australia's stance at GATT was to lead from the front, and to put pressure on government subsidisation of agriculture by its trading partners, particularly the US and Europe. In the event, the WTO rules which emerged allowed agricultural subsidies to continue while giving those same countries that deploy them the ability to use WTO rules to counter any favourable treatment of Australian firms by Australian governments.

WTO rules limit the 'policy space' (Page 2007) for developing states or indeed any others to employ targeted policies to promote industrial development. The rules are in fact agreements negotiated by governments that cover manufacturing, services and intellectual property. The key general principle is that of most-favoured-nation (MFN) treatment — governments have to treat all firms the same, they cannot treat multi-national corporations (MNCs) differently from domestic firms. These agreements specifically limit a country's ability to protect its own 'infant' industries, to impose performance requirements on foreign investors, such as export targeting and other subsidies that affect trade, through the Trade Related Investment Measures (TRIMs). They limit member countries' abilities to 'reverse engineer' and copy products through protection of Trade Related Intellectual Property Rights (TRIPs) (WTO 2012). In other words, they prevent most of the industry development policy instruments deployed by the countries that rapidly developed in the post war period, particularly in NE Asia and Japan. The agreements provide for sanctions to be exercised against non-complying states — unless they are large and powerful enough to ignore

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them — or subtle enough to slide under their radar. As an example of the former, China routinely deploys policies that offend all of the above rules with impunity (Linden 2004; US Congress 2010).

As an example of the latter, Fred Block (2010: 1) points to 'considerable wriggle room' in the current trade regime that allows more scope for government policies than is often assumed. In particular, certain subsidies are termed 'non-actionable' — that is, trading partners who may feel aggrieved by them cannot enlist the support of the WTO to fine or otherwise sanction the allegedly offending party. For example, Block quotes the Uruguay round documents, which define 'assistance for research activities' conducted by firms, educational and research institutions, up to 'not more than 75% of the costs'. He argues that this leaves it open for active government industrial policies to encourage firms to innovate in the development of new products and new production processes. He argues that the US has used this 'wriggle room' to disburse $2 billion per annum to selected firms with fewer than 500 employees, as well as very large amounts of money and in-kind support to the well-known US behemoths through its science and technology infrastructure. This particular loophole in the rules applies to countries that already have a well-developed science and technology infrastructure; Australia may well fall into this category.

This broad definition of 'research' may well give some policy space to measures designed to build such industries as components for, say, aerospace, marine, general transport — in civilian and defence variants. This is in line with the proposals of industry policy advocates, like Lall (2004), who emphasise the importance of nurturing technological development. Industrial development is increasingly about the mastery, adaptation and improvement of technology. Yet this is most unlikely to take place through market process alone. As Lall (2004: 10) argues:

> Technology has strong "tacit" elements that need the user to invest in new skills, routines, and technical and organisational information. Such investment faces market and institutional failures whose remedies require intervention. Many interventions have to be selective because technologies differ inherently in their tacit features and externalities. Industrial success in the developing world and indeed in the presently developed world in its early phases of industrialisation is thus traceable to how effectively governments have overcome these market and institutional failures.

The ingredients of an industrial policy, for Lall (2004: 24–28), are to provide some developmental space for a new industry or industrial process, so it is not swept away by established competition, to ensure that skill, capital and infrastructure meets the needs of the new industry, and to coordinate learning across enterprises and activities. Lall identifies stages of industry policy development, some of which may be particularly apposite for Australian policy makers. First, to counter the ahistorical fairy tales of economic liberalism, there is a need for policy makers to achieve an objective and detailed analysis of what successful countries actually have done to achieve industrial success. Second, it is necessary to create policy space for industrial policy. Here, the 'wriggle room' identified above by Block could be turned to good effect, or policy creativity may find more wriggle room buried in the voluminous WTO rules and agreements. Alternatively, the possibility of renegotiating them may arise. Third, there is a need for exploration of the practicalities of policy; what is it possible to achieve? What policy instruments can be used? The predictable response from economic liberal bureaucrats and politicians that industry policy is impossible must face rebuttal as ill-informed by history, and inadequately justified by evidence.

Conclusion

Australian industry policy is too often seen as simple protectionism, necessarily ineffective, because issues around industry policy are thought to be too complex for conceptually one-dimensional approaches. Yet, while industry policy has been reliably credited with having boosted the economic and social performance of many countries, there are ideological obstacles to exploring such policy options in Australia. There is a need for new approaches to industry policy at a Federal level, which would, as the PM's Taskforce Report promised, orchestrate a 'whole of governments' (Report: 70) approach to industry development. This is necessary to redress the failure of the manufacturing sector, which is now occurring at an alarming rate, leading to the loss of whole industry capabilities.

This article has addressed the question of whether the Report of the Prime Minister's Taskforce on Manufacturing presages new and potentially fruitful policy approaches. While the overall answer is in the negative, certain elements of the analysis and prescriptions are promising, and the overall verdict on the Report is that it has kept these highlights out of plain sight in deference to the overall economic liberal hegemony that restrains the interventionist measures necessary to regenerate and build local manufacturing capacity.

Certain specific proposals in the Report are useful. Thus, for example, the Report explicitly argues that certain industries should be favoured, like food, health, defence, and components. The emphasis on 'industry clusters' is in line with much international research, albeit from an 'innovation paradigm' that skirts around the issue of the direct role of government. The plea for research to be better targeted at real problems is soundly based, although this is not to say that 'pure' research should be undervalued. The proposal to improve management performance, and to move beyond 'short termism' merits consideration. Addressing the formation of industry clusters and 'spring-boarding' from defence procurement for the marine industry is also useful, although unlikely to be taken to its logical conclusion of consolidated and strategic procurement for a range of industries, including aerospace and automotive. Other proposals are less useful: for example, the proposal to 'empower' business and unions to create high performing workplaces is implausible. More will be needed here.

However, as mentioned, the Report's terms of reference tie it to advising on existing programs, not developing new ones. The Non-Government Members of the taskforce have identified their need for 'goals for the years ahead' (Report: 6–9) — that is, for leadership. We await the government's response to their report for indications as to whether such leadership will be forthcoming, or whether the tired liberal economic slogans of the past will continue their domination over Australian industry policy and thereby crowd out those pragmatic policy approaches necessary to revive manufacturing in Australia.

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About the Author

» **Ian Hampson** is an Associate Professor in the School of Management at the Australian School of Business. His research has focussed on skills recognition and skills policy. He is currently a Chief Investigator in two Australian Research Council Linkage Projects, one inquiring into the Future of Aircraft Maintenance in Australia, and another into the recognition of skill in jobs currently considered low-skilled. He can be contacted at i.hampson@unsw.edu.au.

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