Unfinished business: Labor, free trade and structural reform in the Asian century
Tim Harcourt

1. Introduction: The lucky country makes its own luck

Australia’s engagement with the outside world – particularly with the Asia-Pacific region – has taken some twists and turns. Since European settlement, the British Empire dominated, followed then by America, Japan and the rest of Asia. Our institutions, political and economic, were principally British based, but as we moved from convict settlements to a free democratic society, we developed unique economic institutions of our own. It’s been a gradual process but with strong bursts of reform along the way.

One of the most lively reform periods was the Hawke-Keating era of 1983-96. It’s fair to say that in the immediate decades before the election of Bob Hawke as Prime Minister in 1983, Australia was underperforming economically. It was an economy with double-digit inflation, high unemployment and a poor record of industrial disputation. Industry sheltered behind tariff walls, the exchange was fixed and many key industries relied on domestic markets.

Australia, despite its bountiful wealth, was at the bottom of the global premiership table in terms of economic performance. It took three visionaries of the labour movement to open Australia up and lock in the economic prosperity that the lucky country experiences today. Prime Minister Bob Hawke, Treasurer Paul Keating and ACTU Secretary Bill Kelty lead the reform charge and importantly managed its social and industrial impact. The float of the exchange rate, the reduction of tariffs, the introduction of inflation targeting via the prices and incomes Accord were bold, brave reforms. They were coupled with enhancements to the social wage with the introduction of Medicare, superannuation, tax cuts, and reforms to the education and training system to enhance skills for affected workers.

I joined the ACTU at the start of 1991, when the March 1991 tariff cuts were implemented (in the middle of a recession), and with the Industrial Relations Commission still grappling with enterprise bargaining. They were bold reforms but they enabled Australia to open up to Asia and take advantage of the shift in global economic power towards the Asia-Pacific region. The tyranny of distance has truly become the power of proximity, and those 1991 reforms enabled Australia to be in the right place at the right time. This time the lucky country made its own luck and faced the 21st century (now dubbed ‘The Asian Century’) with confidence.

2. The four waves of engagement in the Asian century

The transformation of the Australian economy certainly moved into top gear when Bob Hawke and Paul Keating got their hands on the levers – ably assisted by Bill Kelty and the ACTU. To some extent they accelerated the process that was happening after the end of World War II.

In fact, half century ago, Geoffrey Blainey’s The Tyranny of Distance argued that Australia’s geographic position shaped our psychological attitudes. The long distance between Australia and our colonial forebears in Europe and also the United States, made us unsure of our future economic prosperity. At about the time Blainey was writing, Donald Horne’s The Lucky Country described a resource-rich Australia that lacked intellectual confidence and the capacity to make the most of its natural endowments. Horne also argues that a reluctance to engage with Asia would harm Australia politically, socially and eventually, economically. Noting this reluctance, Singapore’s long-standing Prime Minister Lee Kuan Yew famously warned that Australia risked becoming the ‘poor white trash of Asia’ and advised that vast natural mineral wealth was neither necessary nor sufficient for long-term prosperity.

In these years, however, Japan had already succeeded the United Kingdom as Australia’s major trading partner – the Australian economy had begun its long journey toward greater engagement with the Asia-
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Pacific. This essay examines Australia's post-World War II economic relationship with Asia in terms of four ‘waves’ and concludes that the rise of trade in services will define the most recent wave. This is a story of how, through incremental steps marked by some crucial breakthroughs, Australia has replaced the tyranny of distance with the power of proximity.

**The first wave: Black Jack's beachhead (1957-1972)**

In 1957, just twelve years after the end of World War II, Australian Trade Minister John McEwen signed a commercial agreement with Japan. This agreement gave Australia a ‘beachhead’ in Asia, and launched the Australian tradition of bipartisan support for increased trade engagement with the region. There followed a flurry of trade, and later investment, between Japan and Australia. By 1966 Japan had surpassed the UK in our trading partner ranks – and Japan was transforming itself from a nation devastated by war into a huge and affluent economy.

**The second wave: Sino-the-times (1972-82)**

As Japan re-entered the world economy – followed closely by South Korea and the other ‘Asian Tigers’ – China remained closed to the world with little economic engagement outside its borders. Australian relations with China however, warmed dramatically after Gough Whitlam visited Beijing (then Peking) as Leader of the Opposition in 1971, and formally established diplomatic relations when elected Prime Minister in 1972. Whether because of this early recognition, or of our support for China's entry into the World Trade Organisation, China regards Australia as a key economic partner and China has now overtaken Japan as Australia's number one trading partner.

**The third wave: Breaking down the tariff wall (1983-2008)**

Lee Kuan Yew's admonitions came back to haunt Australia in the recession of 1982-83 when, despite a resources boom, the economy was stagnating beneath double-digit unemployment and inflation. In response, the Hawke-Keating government reforms opened up the Australian economy and oriented it even more toward Asia – and did so while maintaining social harmony through the Accord. The exchange rate was floated, financial markets were reformed, and universal health care and superannuation were introduced alongside education reforms aimed at boosting skills and productivity. Many of these reforms – particularly in finance and superannuation – underpinned the strength of Australian financial services exports in the region.

As for trade, the tariff wall that had kept Australia isolated and uncompetitive for a century was taken down brick by brick. Australia supported trade liberalisation through the GATT/WTO and the creation of APEC, and via other Asia-focused regional economic institutions. The first free trade agreements (FTAs) were mainly Asian in orientation and, in the case of Singapore and Thailand, bolstered Australian professional services opportunities in architecture, accounting, legal and other business and professional services areas.

**The fourth wave: Global engagement in the Asian Century**

Currently Australia is entering its fourth wave of engagement with Asia. The *Asian Century White Paper* in the last days of the Rudd-Gillard government was in part an attempt to capture the reforming spirit of the Hawke-Keating era (it was no accident that Trade Minister Craig Emerson was a Hawke Government economic adviser).

In terms of context, it’s a different Asia-Pacific region with which Australian needs to engage. In terms of trading partners, just as China superseded Japan – which had previously taken over from the UK – further realignment of the global economic order will again alter Australia's trading patterns. The emergence of several ASEAN states, in addition to the new Asian giants – China and India – will take us through this new phase of engagement.

As to the nature of our relations with Asian partners, this wave will look very different. First, we are now well situated within established Asia and are able to expand into emerging Asia. We have formed beachheads in ASEAN, China and India as well as Japan, and now some of the frontier markets – including Laos, Cambodia and Myanmar in the Mekong Delta and Mongolia and Kazakhstan in Central Asia.

Secondly, whilst our larger corporates have already formed strong relationships in Asia, the nature of global supply chains and open regionalism means that Australian small and medium-sized enterprises
(SMEs) will become increasingly enmeshed. These SMEs are already joining global supply chains, engaging in strategic alliances and joint ventures, and setting up franchises across the region. New research from Sensis shows that of those Australian SMEs that export, 27 per cent now export to ASEAN, and Asia provides seven out of ten of our top SME export destinations.

Thirdly, whilst the first three waves of our engagement with Asia have been focused on ‘rocks and crops’ (mining and agriculture), steel and iron ore, and pumping LNG offshore to the region, services will now play a more important role, despite facing some significant competitive challenges. ‘Rocks and crops’ will continue to provide the lion’s share of our export revenue to Asia, but our ‘points of engagement’ with Asia will expand as services trade promotes broader and deeper people-to-people relationships.

Services complement the role that ‘rocks and crops’ and advanced manufactures play in our trade, they are not a substitute for (or alternative to) them. Goods exports build a platform that enables services trade to grow throughout the region and bring with it opportunities for investment, niches for SMEs, and richer global and regional integration.

There are numerous significant external factors that will affect the fourth wave of Australia's engagement with Asia. For example, demographics will matter a great deal, in the region and at home. As younger Australians engage with Asia through education and exchange, technological advances and social media, the nature of their relationship with Asia will be different from that of previous generations. Demographic change in Asia will mean more opportunities for Australian services providers in the traditional areas of education and tourism, but also in areas focused on wellbeing.

China’s one-child policy is generating lucrative opportunities for early childhood educational businesses, with small families and high disposable income. Not surprisingly, Australian childcare centres are doing great business with China’s small families with high disposable income – and Asian-language versions of ‘The Wiggles’ are hugely popular. In India, youth culture and a growing middle class is generating opportunities for retail franchises in massive shopping malls. Demographic change in Asia will also affect savings levels and opportunities for Australia’s growing financial services sector. The ageing populations of Japan, China and South Korea will increase the size of the savings pool to be managed, and the young populations of India, Vietnam and Indonesia will require student loan facilities.

Of course, there will be challenges as we pursue the fourth wave of Asian engagement, particularly given the ongoing risk and potential for external shocks within the global economy after the GFC. Climate change poses a serious threat, though it also represents an opportunity for Australian environmental services exporters. Those engaged in sectors like green building and environmental transport and infrastructure are well-equipped to assist China, India and Indonesia in reducing carbon emissions – and doing so as they grow their economies and pull their disadvantaged out of poverty.

Australia’s economic relationship with Asia has taken many twists and turns, as we have grappled with the tyranny of distance and the changing economic landscape of the region. From our post-War engagement with Japan and recognition of China in 1972 – and then the transformation of our own domestic structure in the 80s and 90s to become one of the world’s most open and successful economies – Australia now embarks with cautious optimism on a new phase and the Labor Government of the Hawke-Keating era was the main driver of this success.

3. Revisionism: Was Labor right in 1891? The federation settlement

So that’s the history. Australia opens up to Asia thanks mainly (but not only) to the Hawke-Keating reforms of the ‘third wave’ of engagement with Asia. Much has been made of how different the stance of the Hawke-Keating Government was when compared to the Labor ‘tradition’ established with the founding of the party in 1891. Australian journalist Paul Kelly – a distinguished scholar of these times – regularly talks about the ‘post federation settlement’ – a trifecta won by an alliance of the labour movement and radical liberals in the first decade of the 20th century. Kelly argues that this trifecta – restricted immigration (white Australia), tariff protection and wage arbitration – was held in place until the Hawke-Keating reforms the dismantling of it at the end of the century. Immigration became non-racially based. The principle of multiculturalism (which was talked about by Holt, Gorton, Dunstan and Whitlam in the 1960’s and Malcolm Fraser in the 1970’s) was fully realised under Hawke. Tariffs were reduced thanks to Hawke, Keating and industry minister John Button. The last leg of the trifecta – centralised wage fixing by the Arbitration Commission – was replaced by enterprise bargaining in 1991 at around the same time as the major reductions in tariffs (the March 1991 Industry Statement). This has
There’s no doubt, these reforms were a principal reason why Australia’s economy is the envy of the OECD (‘from Down Under to Down Wonder’) and we’ve been able to escape both the Asian financial crisis of 1997 and the global financial crisis (GFC) of 2008.

However a new book Why Australia Prospered, by economic historian Ian McLean, questions much of this rationale in comparing 1891 to 1991. Whilst McLean agrees that the Hawke-Keating reforms were necessary in light of changed circumstances in Australia’s position in the world economy, he disagrees that Australia necessarily took a wrong economic stance in the 19th and early 20th centuries. For instance on immigration, whilst objecting to the inherent racism in the policy, he says it was a rational response to a large influx of skilled labour that had been harming other economies (and a need to avoid slavery just after the convict system was banned). On tariffs, he points out that imperial preference by the great powers such as Britain and Germany distorted the international trade system and left no choice but for Australia to be protectionist in a pre GATT/WTO world. On arbitration, it is likely that the system adopted uniquely in New Zealand and Australia, managed industrial issues and redistributed income without adverse impact on efficiency in the labour market. In fact, it could be argued that it was a mechanism of dealing with competing claims in the early 20th century closed economy of the newly federated Australia, just as today’s wages system shares the income of today’s open economy of the 21st century. In some ways, McLean’s book is a great case study for the Harvard/MIT book Why Nations Fail by Daron Acemoglu and James Robinson on how the development institutions matter for economic progress regardless of the initial resource endowments available to nations. You can compare Australia with Argentina – lands of recent settlement and similar resources – diverging economically because of different institutions.

Of course Why Nations Fail is not just about Australia and Argentina. Acemoglu and Robinson also pair Botswana and Sierra Leone, Mexico and USA to show institutions make the difference in a country’s economic development. Countries that build inclusive institutions that protect property rights and democratic rights, will do better than countries with extractive institutions, even if they have the same resource endowments, ceteris paribus. McLean’s book on the economic history of Australia presents the classic case of why institutions matter for economic progress. McLean shows how the balance between democratic rights (universal franchise, secret ballots, votes for women, trade union rights) and property rights (including Torrens title and other uniquely Australian innovations in land reform) creates institutions that are crucial to economic performance and a stable cohesive society.

4. Was Labor right in 1991? The Keating settlement

Whilst McLean questions the modern day criticism of the Kelly post federation settlement thesis, based on the fact that he believes the political leaders then made rational responses to the international circumstances of the time, he still supports the Hawke-Keating reforms. In fact, it could be said that rather than deliberately turning tradition on its head, Bob Hawke and Paul Keating were responding to rapid changes in the international economic landscape in order to maintain the best social policy features of that Labor tradition. They were getting the economy flexible through the float (Paul Keating regularly referred to the flexible exchange rate as ‘the ultimate shock absorber’), tariff reductions and domestic reforms so that Australia could treat the Asian Century as an opportunity rather than a threat. The Hawke-Keating government saw good policy as getting the right balance between wealth creation and wealth distribution, and allowing the community to adjust with the change in circumstances rather than be dislocated by a ‘short, sharp shock’ approach to policy.

Controversy has mostly raged over the third leg of the post federation trifecta – the labour market. Whilst nearly all commentators applauded the dismantling of white Australia and most (with some rare exceptions) the tariff wall, the arbitration question is quite different. It may be partly timing as the March statement of 1991 came a month before the Industrial Relations Commission rejected enterprise bargaining (April 1991 – a decision overturned in October of same year). Some argued that after Paul Keating as Treasurer had opened the product market and financial market, the last thing to do was ‘open’ (or ‘deregulate’ the labour market). Somehow this symbolised the ‘unfinished business’ of the Keating settlement.

However, labour economists like Keith Hancock who have analysed Australian wage fixing over the century, have found that the Australian arbitration system has invented and reinvented itself countless times over 100 years – from decentralised to centralised models depending on Australia’s external economic circumstances. These labour economists like the economic historian Ian Mclean, argue that
these changes were rational responses to industrial conditions at the time, and it is not as though we had one wage fixing system from 1891 to 1991, which was miraculously transformed in one fell swoop of reform. In any case, there is really no such thing as labour market ’deregulation’ as there is always some form of regulation in the employment contract whether it be awards, collective bargaining agreements or individual contracts.

Furthermore, is there a specific logical flow between tariffs and immigration on one hand and the labour market on the other? Just as Labor in the federation settlement wanted workers to receive a share of the benefits their employers received from protection via the basic wage, surely Labor in the Keating settlement wanted workers to benefit from the improved terms of trade gained from an open economy. The labour market instrument of choice in the Keating settlement era was enterprise bargaining.

The choices governments make is in balancing wealth creation and wealth distribution. The decision the open up the Australian economy by the Hawke-Keating government helped create wealth and improve living standards as the export opportunities in Asia became apparent. The Accord and its labour market policy allowed the fruits of this trade to be distributed whilst generating a more responsive domestic economy. You can’t apply the same analysis of trade and financial markets as the labour market is fundamentally different to product markets. As the Nobel laureate Bob Solow once said ‘The labour market is different as it’s not like the market for dead fish.’

Therefore, it is logical to applaud the reforms of the Hawke-Keating government in opening up the Australian economy, whilst understanding the need for social protection via labour market institutions that balance property rights with workers democratic rights. Australia has balanced the right to ‘have a go’ (supporting entrepreneurship) with the right to the ‘fair go’ (supporting workers’ rights and equity) making our experience a classic case study of the importance of institutions to economic progress in Why Nations Fail.

6. Honey I shrunk the party

Fabians have very good reason to be proud of the Hawke-Keating reforms – especially in terms of trade and engaging with the world in the Asian Century.

There’s no doubt, these reforms were a principal reason why Australia’s economy is the envy of the OECD (‘from Down Under to Down Wonder’) and we’ve been able to escape both the Asian financial crisis of 1997 and the global financial crisis (GFC) of 2008. Australia is an open economy with improved living standards, and unemployment is much lower than it was when we were a closed economy. No one is calling Australia ‘poor white trash’ anymore but rather a diverse multicultural society with a stable economy and society. Economic reform has been a success and some commentators even go further, saying that Australia has transformed itself from being run by producer interests to being run by consumer interests. For example, former Labor Leader and now Australian Financial Review columnist Mark Latham, cited the withdrawal of Toyota, General Motors and Ford as a ‘victory’ for Australian consumers. He called on Bill Shorten not to embrace ‘retro economics’ as Kim Beazley did just after the Keating settlement had set Australia up for the Asian Century.

The irony could be that whilst the Hawke-Keating reforms did great things for the Australian economy, were they good for the Labor Party or the labour movement? It could be that the labour movement was the one institution that didn’t quite get reformed in this great reforming era?

There are enough books now on the Labor party to provide employment for Tasmanian timber workers for a generation (unless of course they are digitised), but one thing has been overlooked. The labour movement was certainly reforming itself under ACTU secretary Bill Kelty in terms of union amalgamations, organising and campaigning, enterprise bargaining, and related structural reforms. Some fall in union membership was inevitable given international trends in democratic countries, so Kelty and the ACTU leadership formed new institutional structures for worker voice and representation. One of the most important social innovations of the Keating settlement was Australia’s unique superannuation system. As traditional union membership declined, Kelty and the ACTU moved into super, and labour became the joint owners of capital – assisting both efficiency and equity in the Australian economy. Some of the leading lights of this unique reform era at the ACTU are now Labor MPs (the most famous one being the Leader of the Opposition Bill Shorten, then a twenty something AWU organiser and later AWU national secretary). The experience they had in leading union reform should provide lessons for party reform.
7. Conclusion: Unfinished business

Australia history of extensive economic reform was accelerated by the Hawke-Keating government’s third wave economic engagement with the Asia-Pacific region. It took over a century to change our mind about Asian engagement. Asia is now seen more as an economic opportunity than as a threat to our security. Australian history has been turned on its head. Because it is Labor – the party that in the early 20th century thought Australia had the most to fear from Asia – that has in the early 21st century, become the party that sees its mission as preparing Australia for the Asian Century ahead.

There is unfinished business. Not the deregulation of the labour market (whatever that really means), but to finally dismantle the federation settlement of 1891 and fully create the Keating settlement of 1991. It is quite logical to support the Hawke-Keating trade reforms, but still support Australian’s unique labour market institutions.

The unfinished business also goes to the Labor party itself. At the last federal election of 2013, it received 34 per cent first preferences, and in some way relies heavily now on compulsory voting, preferential voting and institutional support for a two party system. Some in the party want it to be the party of free market economics and social liberalism (‘markets and multiculturalism’, or ‘reduce a few more tariffs and support gay marriage’), but that seems to be indistinguishable from Malcolm Turnbull. Others want a mix of social activism and interventionist economics, which looks like the Greens Party. Others want to turn the clock back on all policy to Australia’s better days (which sounds like One Nation or Palmer United).

Drawing on economic history and the waves of institutional reform accomplished from 1891 to 1991 and now 2014, the labour movement will find a way forward. As the Harvard/MIT study *Why Nations Fail* shows, combining institutions that support property rights with inclusive democratic rights, is the secret to economic and social progress. Australia is a good example of the Harvard/MIT treatise working in practice. We can combine entrepreneurship with social justice, democratic rights with property rights, the right to a *fair go* with the right to *have a go*, and as a result we’ve been able to build a strong sustainable economy with equally strong social institutions.

For reform to be sustainable, it must be gradual and inclusive, as the Fabians suggested a century ago. Australia’s experience in the last two centuries is a great example of those Fabian principles in action. This is something the movement can use as a guide as it prepares Labor for the Asian Century ahead, and greater prosperity for everyone.

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