

Industry policy, socialism *and the* Australian experience

“For socialists, the manufacturing sector is the motor for socio-economic development. Industry policy becomes an instrument of social change”



By WINTON HIGGINS*

In the previous issue of the Labour Bulletin I presented one special strand of social democracy as a useful political orientation for South African labour as it faces the challenges of socio-economic reconstruction in the present period. This special strand I called the new democratic socialism, and one of its hallmarks is its emphasis on production politics, in contrast to the tendency of mainstream social

Winton Higgins teaches in the school of history – philosophy and politics at Macquarrie University in Australia

democracy to retreat into an exclusive concentration on distributional politics, above all welfarism.

In this article I want to develop the suggestion in my previous piece that industry policy is an important and available vehicle of social democratic production politics in industrialised countries, like South Africa, which are taking the brunt of increasing international competition. No country today can sustain a viable manufacturing sector without at least some elements of industry policy.

But socialists have much higher ambitions for manufacturing industry than its mere survival. For them, this sector is the motor for a socio-economic development towards high employment rates, broadly distributed improvements in living and working conditions, and the democratisation of society. These ambitions distinguish a socialist industry policy from one concerned only with the maintenance of industrial capitalism. When the labour movement mobilises around this sort of policy and the ambitions it encapsulates, industry policy ceases to be the plaything of technocrats and becomes instead an instrument of social transformation.

What is industry policy and why is it necessary?

Industry policy is essentially about social and public institutions – from the labour

movement and business lobbies to the state itself – taking responsibility for the national manufacturing effort. A number of technical and organisational conditions have to be met if a country is to enjoy a successful industrialisation. Industrial establishments have constantly to be established, modernised, rationalised or expanded, and reintegrated into the manufacturing sector as a whole. Enterprises have to be reliably supplied with external finance on appropriate terms. Marketing arrangements and trade policies need regular adjustment to changing patterns of demand and international trade. The industrial relations and training system requires ongoing adjustment to new social and technological developments. None of this can be left to chance – or to the market, which is the same thing.

Recent economic history shows starkly that there are winners and losers in the international trade in manufactured goods. The winners are countries like Japan, the 'Asian tigers' (South Korea, Hong Kong, Singapore and Taiwan) and Germany which enjoy large trade surpluses in this area and which operate high-profile industry policies. The losers include the UK, USA and Australia, with their massive deficits in trade in manufactured goods and their shared commitment to 'market solutions'. In short, the governments in these countries have never accepted responsibility for national industrial performance, and the result has been industrial failure. And when this central motor of wealth creation fails, a country loses its policy options in socio-economic development as it is more and more constrained by the need to 'manage the damage' to its balance of payments and standard of living.

Industry policy is not a form of central planning – it complements market mechanisms and creates an environment in which industrial enterprises can make rational medium – and long-term decisions. If industrial enterprises are to be effective they have to work in an environment and have access to resources that support decisions to research and develop new

products and manufacturing systems and to work towards greater market shares in the longer term.

But unregulated markets – especially an unregulated financial market – collapse this industrial timeframe into the yearly and three-monthly calculation of profit. Unregulated markets thus systematically impose irrational financial criteria on industrial decisionmaking at the enterprise level. This is where the syndrome of manufacturing decline begins – in failure to invest in research and development (R&D), to replace worn-out and obsolete plants, to establish new plants, to introduce innovations in processes and products, and to invest in sales and service networks in new markets. None of these activities turns a short-term profit, but all are vital to manufacturing success.

Institutions that devise and implement industrial policy in countries like Japan work from manufacturing industry's special technical and organisational requirements. They ensure that industry makes necessary technological linkages (for instance, between steel and car manufacturers, or the computer and machine tool industries to foster the production of numerically controlled machines). They stimulate the national R&D effort and the establishment of new industries to commercialise its successes. Industry policymakers provide seeding capital and regulate financial markets to assure industry's financial needs on appropriate terms. They develop trade policies and export facilitation schemes to ease entry into new markets.

Whether we start with the correlation between industry policy and industrial success, or with the peculiar technical and organisational requirements of manufacturing activity, the need for industry policy is quite clear. What is really problematic in each country is whether an institution or movement exists to promote and devise industry policy, and if so, for what purpose. For industry policy is ultimately a question of political will.

The political issues involved in industry

policy, have been with us since the industrial revolution. Ever since then different social interests have contested the purposes which the vastly expanded possibilities for wealth creation inherent in mechanisation should be put to. In those countries where the state has initiated industrial development (above all, the Asian industrial winners), it has done so to seek national economic dominance on a regional or global scale. In this scenario industry policy usually takes a labour repressive form, as labour is made into a cheap and docile sacrifice to 'the good of the nation'.

However, progressive social interests – historically represented by socialists and 'collectivist' liberals – have opposed this agenda with another set of aspirations for industry to serve. These aspirations include targeted production and distribution of the material supports for a higher standard of living for the population at large, the abolition of poverty and drudgery, and democratic participation in a stimulating and meaningful worklife for all who seek it. Here, industry is seen as the major contributor to social improvement and enriched citizenship for each individual in industrial society.

As I indicated in my previous article, the Swedish social-democratic labour movement provides us with an historical example of a progressive social interest that sought to impose these priorities on the industrialisation process. Historically, the Swedish unions began their long intervention in 'production politics' in the 1920s. Swedish social development and industrial success for over half a century from the



social democratic breakthrough in the 1930s illustrates well enough the potency of the political will to cultivate industry for social development.

What prospects do other labour movements, like the South African one,

have to replicate this process in quite different national settings and under present conditions of international competition? The Australian union movement began to champion industry policy ten years ago in a period of considerable socio-economic and political change. Its fortunes and misfortunes offer pointers to South African labour about the opportunities and difficulties of an engagement with industry policy under conditions that are in some ways comparable to South African ones.

Australia under reconstruction

Australian manufacturing unions and the Australian Council of Trade Unions (ACTU – to which virtually all Australian unions have been affiliated in recent times) began pushing for industry policy in the early 1980s. As I will indicate later, this initiative represented a sharp reversal of the labour movement's own political tradition, and that of the country as a whole. The initiative was a belated response to the distorted and lacklustre industrialisation of Australia since before the first world war, a process that the labour movement itself had helped to mould, and that was simply unsustainable in the harder economic climate of the late twentieth century.

The industrial legacy Australian unionism was trying to overcome in the eighties bears a clear resemblance to South Africa's. Both countries fostered import-substituting industries for a relatively small domestic market. In other words, the manufacturing sector in both cases produced a wide range of goods behind very high tariff walls, nourished by state hand-outs and in the absence of any discipline to modernise or rationalise their operations, or pursue higher rates of productivity. Most countries that successfully industrialised were crucially concerned with these elements of competitiveness as their prosperity rapidly came to depend on manufactured exports. But Australia and South Africa 'paid their way' with agricultural and mining exports, and their industrialisation served quite different purposes.

In Australia, the labour movement entered into an historic 'deal' with urban capital in the early years of this century, a deal that decisively influenced the movement's own future development and the industrialisation process that was soon to begin. These three components of the deal were the White Australia policy (to keep out 'cheap, coloured labour'), protection (to stop the importation of the products of this labour) and an arbitration system that would grant each existing craft union an exclusive license to represent workers in its own little corner of a highly fragmented labour market. From labour's point of view, the rationale of the deal – and of the industrial development that took place in its shadow – was to guarantee job security and 'comparative wage justice' to white male workers under conditions of permanent labour shortage inside 'Fortress Australia'. It was a recipe for income

distribution to a relatively privileged and exclusive working class, without resort to a welfare state.

It was also a recipe for industrial disaster. As Australian manufacturing evolved to its high point in the mid-sixties it was characterised by disorganisation, especially in the form of too many too small plants and technological backwardness. To give one example – that of the all-important car industry – no less than 26 car models were being produced under local-content provisions; but only three models exceeded 20 000 units a year and thus come anywhere near internationally sustainable economies of scale (Ewer et al 1987, 16). The craft union-arbitration nexus also preserved traditional, narrow skill classifications which obstructed technological innovation and job reorganisation.

This kind of development is no doubt



**“THE CASE AGAINST SOCIALISM
IS A DEADLY ONE**

**“IT CONCERNS THE SPIRITUAL, MENTAL AND PHYSICAL
FUTURE OF OUR FAMILIES”**

(Mr. Menzies' Policy Speech)

**THE SOCIALIST DOCTRINE HAS LOST ALL
SPIRITUAL CONTENT:**

As Church leaders have pointed out, the final descendant of
the materialism of Karl Marx

**• SOCIALISM MUST MEAN THE REDUCTION OF
HUMAN FREEDOM:**

You cannot have a controlled economy without the freedom of
being able to sell the greatest of all commodities

Australian Prime Minister Menzies's anti-"socialist" propoganda in the 1950s

- The Australian labour/capital "deal" in the early years of this century was a recipe for income distribution to a relatively privileged and exclusive working class without resort to a welfare state"

familiar to South Africans. Here, too, industrial efficiency came a poor second in the political agenda after the goal of fostering manufacturing as a privileged haven, under job-reservation schemes for white, male labour organised into often militant craft unions. As in Australia, manufacturing was more of a distributive than a productive mechanism. This did not discomfort dominant social groups (and thus become a 'problem' for policymakers) so long as mining and agriculture – which accounted for around 80% of Australian export earnings during most of the industrialisation process – continued to underpin their standard of living and intensifying international competition could be kept at bay. The 'problem' emerged in the 1970s and 1980s when the terms of trade turned precipitately against primary commodities.

In a pure world, the policy response to this decline in economic fortunes would have been quite clear: the adoption of an industry policy to usher in an industrial renaissance along the well-trying lines of the industrial 'winners' overseas. In South Africa, of course, the old white labour movement was embedded in the apartheid regime and its socio-economic disorders which excluded the possibility of reform. But in Australia the wider labour movement was also embedded in a regressive political culture partly of its own making – economic liberalism. Industry policy (and production politics in general) involve policymakers in ongoing interventions into both public and private economic management. It is unreconcilable with economic liberalism which invokes the sanctity of unregulated markets and property rights (together with the managerial prerogatives that derive from them).

The Australian labour tradition was a tacitly economic-liberal one in two ways. Firstly, it is a truism of craft unionism that unions should abstain from managerial and productive issues – 'the boss's problems'. Indeed, craft unions – in contrast to industrial unions – by their nature are incapable of tackling production issues, since

their structure does not match the structure of industry. Their abstentionist rhetoric merely makes a virtue of necessity. Secondly, in its periods in government, the Australian Labour Party (ALP) had neglected the problems of the manufacturing sector as consistently as its conservation competitors. Liberal economic policy in Australia has always been a bipartisan affair. As more fundamentalist fashions in economic liberal doctrine – monetarism, and then economic 'rationalism' – came to the fore in the seventies and eighties, tariffs and other regulatory mechanisms were dismantled, not least by the succession of federal ALP governments since 1983. This development, however, represents more of an intensification of the old Australian labourism rather than its reversal. It followed the conventional (liberal) economic wisdom enshrined in the old policymaking bureaucracies that Australia did not have the 'resource endowment' to be a manufacturing power except in isolated 'niche' markets. Traditional benign neglect of industry gave way to malign neglect.

When Australian metal unions began to raise the issue of industry policy in the wake of the collapse in manufacturing employment (200 000 jobs lost in the decade to 1983 – Ewer et al 1987, 23), they probably underestimated the opposition they would meet, not least from the leadership of the ALP. The latter initially even committed itself to develop and implement a comprehensive and selective industry policy in the historic 1983 ALP-ACTU Accord that clinched its electoral victory in the same year. When the metal unions produced the first major manifesto on industry policy (MTU 1984) they addressed only the theoretical and technical issues, no doubt in good faith, believing that the Government would honour its solemn commitments under the Accord.

It is worth noting that manufacturer's business lobbies around this time produced proposals of their own for an Australian industry policy, especially the Metal Trades Industry Association and the Victorian (later

Australian) Chamber of Manufactures. Many of their suggestions converged with the unions’.

The manufacturing unions and the ACTU were showing signs of moving away from the old labourist fold towards a social democratic development (Higgins 1987). In several industries – above all in the metal industry – union amalgamations were transcending impotent craft structures and producing unions with the coverage and resources that enabled them to intervene in managerial and policy issues. No corresponding institutional and political development occurred in the ALP, which remained a mere electoral machine. In office it continued to be beholden to vested interests and the old policymaking bureaucracies that had always enthralled it. The gap between these two arms of the labour movement would frustrate the unions’ bid to engineer an industrial renaissance in Australia.

In the brief creative period during which industry policy was a main union focus, the movement’s thinking matured from a technocratic to a social democratic model. The metal union’s first proposal (MTU 1984) was largely inspired by Japanese industry policy, and explored technological and institutional requirements of sustainable industrial expansion, and the state policies and institutions that could support them. Many of the document’s insights have enduring validity. First, productivity improvements depend on sustained high-volume production, rather than the latter stemming from the former. Second, the unions launched a formidable attack on the myth that international trade is ‘free’. Trade flows in the late twentieth century are essentially ‘administered’, not only in all sorts of trade agreements and protectionist regimes, but also by the trade policies and export facilitation programmes of countries that do operate industry policies.

In the early 1980s, when unions were developing these ideas, they were also promoting industrial democracy. Schematically, we could say they wanted

‘Swedish’ industrial relations under union auspices, overlaid by technocratic ‘Japanese’ industry policy pursued by a nation-building state. In hindsight, they had not yet integrated these tasks in a broader, social-democratic definition of labour’s role as the bearer of industrial regeneration.

This integration came three years later in the ACTU and Trade Development Council’s (1987) landmark proposal, *Australia Reconstructed*.

The document arose out of an ACTU delegation to investigate public economic management in Norway, Sweden, Austria and Britain. Faith in technocracy now gave way to the union movement’s determination to play its own direct role in industrial, economic, social and labour market policy formation, and to mesh its concerns in all these areas in the interests of furthering its own social priorities – equity, efficiency and democratic organising principles understood as mutually reinforcing values. The document explicitly adopted the notion ‘strategic unionism’ to express the unions’ new political role.

Australia Reconstructed went into considerable detail on the institutional reform that would be needed from the governmental level to the enterprise to give effect to these new aspirations and meet the technical, financial and marketing requirements of manufacturing revival. Clearly, without the institutions to develop and implement policy on an ongoing basis, any industry policy proposal is stillborn.

Reneging on real institutional reform – even those promised in the Accord – was precisely how the ALP government frustrated the unions’ push into industry policy. It cynically went through the motions of specific institutional measures it had promised in the Accord. The latter called for

“The Australian Labour Party posed an irreparable obstacle to union efforts to achieve an industrial renewal through comprehensive and selective industry policy”



1987: Australian Labour Party leader and Prime Minister, Bob Hawke, with Reagan's secretary of state, George Schultz. Exercising socialist statecraft?

a review of the old Industries Assistance Commission (IAC, later simply the Industries Commission – IC), the main upholder of the traditional economic liberal neglect of the manufacturing sector. The government simply commissioned a review on it from a prominent anti-union, economic-liberal businessman, who duly found that the IAC needed no reform.

The Accord promised a new, high profile economic policymaking body which would be an alternative source of advice to government (as opposed to the IAC and Treasury) and in which the union movement would be strongly represented. The government duly established the Economic Planning Advisory Commission (EPAC), but then allowed the IAC and Treasury to colonise it. The Accord called for a revamp of the existing tripartite Australian Manufacturing Council, but the government dragged its feet on this reform.

The other aspect of Labor government recalcitrance on industry policy was its crusading commitment to deregulation and small government. It adopted monetary,

fiscal, trade and exchange policies that left no room for an industry policy. The potential levers of a more creative management of Australian industry were simply junked in the doctrinaire pursuit of 'the level playing field'.

Australia, then, never got the comprehensive and selective industry policy that the Accord promised and that is an uncontroversial support for successful manufacturing elsewhere in the industrialised world (Higgins 1994). For pragmatic, electoral reasons, the government did commit itself to specific 'plans' in certain troubled industries – above all steel, heavy engineering and textiles, clothing and footwear (TCF). The Steel Plan 1984-6 was its one clear success. It made government assistance to rationalisation dependent on commitments from management and unions on investment levels and productivity gains. The heavy engineering plan struck greater institutional problems, and the government clawed back a substantial part of its financial allocation to the plan in order to meet its own fiscal policy targets. The TCF plan was

effectively scuttled in the interests of the accelerated dismantling of tariffs and of the mythical 'level playing field'.

The only real effect of levelling the playing field has been to mulch manufacturing activity in Australia. The Labor government in recent years has celebrated the rise in manufacturing's contribution to overall exports to around 25%. What it does not say is that manufactured imports have risen apace. In 1991-2 the country's deficit in manufactured trade was \$A17 billion, almost exactly the same figure as that posted six years earlier (BIE 1993, 3).

The ALP leadership's recalcitrance posed an insuperable obstacle to union efforts to achieve an industrial renewal through a comprehensive and selective industry policy. The movement's line of retreat has been to co-operate in the government's surrogate for industry policy – labour market reform. Some aspects of this process, such as award restructuring and better training programmes, are necessary to (but hardly sufficient for) industrial recovery. Other aspects, like the dismantling of centralised wage fixing, disarm organised labour and adversely affect weaker groups in the labour market.

Industry policy and socialist statecraft

South Africa is an industrial country in the sense that it has a diverse manufacturing sector that accounts for roughly a quarter of the 'formal' labour market. But much of this sector is too much in need of rationalisation and modernisation to survive the competitive pressures it will meet as the country normalises its economic relations with the outside world. If it is to maintain existing employment levels in the manufacturing sector, let alone raise them, it will need to implement an industry policy. Without an industry policy, the country would be bound to experience a sharp manufacturing decline that would add to the already massive unemployment and cripple the sector that has most to contribute to a rising national income in the future. Policy options for

socio-economic reconstruction would disappear in a permanent balance of payments emergency.

As in Australia, the political will to devise and implement an industry policy is unlikely to come from anywhere but the union movement. In terms of the socialist project, organised labour is precisely where this initiative needs to come from. Organised labour is the unique bearer of an interest in industrial progress and the deployment of its fruits in social betterment. As I suggested in my previous article in the *Labour Bulletin*, the central offensive weapon of a socialist movement is its ability to contest the economic rationality of capitalism, and of managerial prerogatives and unregulated markets in particular. The logic of the institutional and organisation reform of manufacturing over time is to displace these essential aspects of capitalist economy in favour of a democratising economy.

A union movement like COSATU can glean a number of lessons from its sister movements' earlier attempts to pursue this logic. The clearest lesson to come out of the Australian experience is the unions' need to bind its affiliated political party to its reconstruction initiatives. Australian unions met ultimate frustration at the hands of an entrenched economic-liberal orthodoxy which incurably infected its own affiliated party in government. In South Africa, while the ANC is inevitably coming under international and domestic pressure to conform to economic liberal protocols, these pressures lack the institutional roots and intensity they have enjoyed in Australia. Progressive forces in South Africa have a far better chance of overcoming this historically most important bulwark of capitalist economy in their pursuit of interventionist policies.

The positive lesson from Australia is the union movement's ability to develop in a hegemonic social-democratic direction, and in line with this higher level of ambition, to nurture a policymaking capacity which gives it a critical political initiative. As Pontusson (1992) has suggested in an illuminating

analysis of the Swedish case, success in labour-led reform probably depends on the movement's ability to gain the support of some section of capital, so as to secure sufficient overall support and divide potential opposition. The Australian case illustrates that unions can win industrial capital's support for industry policy, even where the economic-liberal orthodoxy is strong.

In sum, COSATU's socio-economic commitments make an industry policy initiative a high priority. Industry policy in the South African situation is a feasible political project especially given the industrial unionism that COSATU embodies. But the feasibility of industry policy depends on the reliable political backing of the unions' political affiliates, on COSATU committing major resources and energy into

developing its own institutional capacity, and on it continuing to negotiate wide-ranging industrial reconstruction with manufacturing employers. ☆

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Government and unions in accord

Lessons for South Africa from the Australian experience

By **FRANK STILWELL** * ☆

The relationship between a democratically elected South African government and the trade unions is an issue of major economic, social and political significance. Is it appropriate and feasible to establish a 'social contract' as an instrument for economic management and political cohesion? Should unions agree to wage restraint in exchange for government commitments to improve the 'social wage' ** and the living conditions of the most economically disadvantaged?



Frank Stilwell

What can be learned from experience elsewhere? The ill-fated social contract in

* Frank Stilwell is in the Economics Department of the University of Sydney, Australia.

** Social wage: necessities funded by the state, such as health care, old age care, education and public housing which make life better in general for workers.