

Policy Autonomy – Reality or Fiction?

From Bretton Woods to the Banana Republic

Warren Peter Riddell

University of Sydney
School of Social & Political Sciences

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Statement of Originality

This is to certify that the content of this thesis is my own work. This thesis has not been submitted for any other degree or purpose.

I certify that the intellectual content of this thesis is the product of my own work, and that all assistance received in preparing this thesis and all sources have been acknowledged.

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Warren Riddell

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Abstract

The thesis argues that macroeconomic policy autonomy is a post-Second World War construct based on both the Bretton Woods system and macroeconomics becoming a cohesive tool of economic management. Under the Bretton Woods system policy autonomy was ‘assumed’ through multilateral support. However, following the end of the Bretton Woods system policy autonomy changed to becoming an ‘aspiration’ as multilateralism gave way to unilateralism, demanding political-economic action by individual nation-states to achieve it.

The thesis defines policy autonomy using Jan Tinbergen’s lines of policy *resistance*, that include *boundary conditions* and *defence lines*, that is synthesised into ‘boundary lines’ in this interpretation. One side of the boundary line are *non-elected actors* and exogenous forces and events that create resistance or limit policy autonomy. The opposite side is the home to *elected actors* and is the endogenous zone of government action (policymaking) and internal tensions (priorities and competing ideologies). Government can re-set boundary lines to extend the scope of policy autonomy where they have *permission* from non-elected actors. The key issue is that permission, boundary lines and consequently policy autonomy are not static, they are in a constant state of flux due to changing exogenous forces and events, and endogenous actions and tensions.

The thesis examines the changing Australian political-economic context from 1947 to 1986 to illustrate how policy autonomy was impacted over that period; it was not a constant and required either *proactive* or *reactive* political-economic management to be maintained. The events of 1983 that led to the float of the Australian dollar and liberalisation of the currency and financial markets are examined in depth to draw out the role of endogenous action in the process of gaining permission, re-setting boundary lines and restoring policy autonomy, after it had been undermined following the end of Bretton Woods and the economic turmoil during the decade that followed.

Boundary lines and permissions must constantly be managed by government for policy autonomy to be maintained—to remain a reality not a fiction.

Contents

Abstract	3
Introduction	5
PART 1 – POLICY AUTONOMY AND THE ‘THESIS-LENS’	11
1.1 Policy Autonomy	11
1.1.1 Context of Policy Autonomy within State Theory	11
1.1.2 Bretton Woods	12
1.1.3 Macroeconomics	13
1.1.4 Tinbergen’s Boundary Conditions and Defence Lines	14
1.2 The ‘Thesis-Lens’	17
PART 2 – 1947-1986: CHANGING FORCES AND EVOLVING CONTEXT	21
2.1 Exogenous Forces and Events	22
2.1.1 The evolving international financial system	22
2.1.2 The development of postwar macroeconomics and policy strategy	35
2.1.3 Enter the neoliberals and rationalists	37
2.1.4 The globalisation context	41
2.2 Endogenous Actions and Tensions	46
2.2.1 Australia’s postwar political-economic context	46
2.2.2 The postwar political-economic transition	48
The first phase – from Bretton Woods to 1970	48
The second phase – 1971 to 1982	59
The third phase – 1983 to the ‘banana republic’	74
2.3 Summary & Conclusion for Part 2	83
PART 3 – 1983: A DEMONSTRATION OF ENDOGENOUS ACTIONS AND TENSIONS	87
3.1 The Political-Economic Context of March 1983	87
3.1.1 Exogenous forces	87
3.1.2 The domestic economic legacy	90
3.1.3 Monetary targeting by 1983	91
3.1.4 The new Labor government of March 1983	92
3.2 The 1983 Political-Economic Transition	93
3.2.1 Key endogenous actions and tensions from election day to the float	94
3.2.2 Reflections on the float and deregulation	113
3.2.3 The Hawke government’s choices	115
3.3 Summary & Conclusion for Part 3	118
PART 4 – THESIS CONCLUSION	122
References	132
Appendices	140

Introduction

“...he had always wanted to get his hands on the levers of power, he said, and at last he was going to do just that. And sure enough, when he walked into his office at the Ministry of Technology for the first time, there they were in all their gleaming majesty – the levers of power. With a glad cry, he had leapt forward and started tugging at them in a frenzy of pent-up enthusiasm. It was quite a long time before he realised that, however hard he pulled, nothing actually happened. It was even longer before he discovered that the levers weren’t actually connected to anything.”

Reference to a speech by Tony Benn M.P. in 1974 (Aitken 1998)

This thesis asserts that macroeconomic policy autonomy, the ability of government to freely pursue a nation-state’s macroeconomic policies, is a post-Second World War construct born from a *combination* of:

- the Bretton Woods Agreement, where it was an essential component of nation-state economic reconstruction, *and,*
- macroeconomics becoming a discipline of wholistic and cohesive economic management.

Furthermore, the thesis also asserts that policy autonomy is not a fiction, having been challenged in the 1970s after the end of Bretton Woods by the inexorable forces of the growing financial markets, increasing globalisation and competing ideologies, it is an ever-changing construct requiring both political will and skill to establish it, then maintain it, as a reality.

...

To create *form* around the abstract construct of policy autonomy I have chosen to draw from aspects of Jan Tinbergen’s *Economic Policy: Principles and Design* (1967), where policy autonomy is determined by boundary lines that delineate *resistance* to policy choices. These boundary lines are subject to constant pressure from both *exogenous* forces and events (i.e., external to the elected actors of government, such as the international financial system, macroeconomic ideology, globalising forces, the policies of other nation-states, and non-elected actors within the administration and bureaucracy), and *endogenous* actions and tensions (i.e., from within government, such as competing priorities, differing political agendas within government, the party caucus, and parliament). Where government chooses to position a policy, *relative* to ‘boundary lines of resistance’, will impact policy acceptability and its effectiveness; positioned beyond boundary lines may attract an adverse response and policy failure. Positioned well within the boundary lines may illicit no reaction but also may lead to weak policy. Furthermore, ‘boundary lines of resistance’ are not necessarily static but shift due to changing exogenous and endogenous dynamics. This is considered in more detail in Part 1.

...

To illustrate the thesis I track policy autonomy from the perspective of the Australian government from the end of the Second World War to the mid-1980s and demonstrate not only how policy autonomy changed over this period, from an ‘assumption’ under the Bretton Woods system to an

‘aspiration’ after 1973 when it was subsumed by changing economic conditions, and how proactive and reactive endogenous political-economic action by the Hawke government in 1983 re-established policy autonomy and enabled an innovative program of reform. The review period ends in 1986 when the ‘hard-won’ policy autonomy of the Hawke government was again challenged and gave rise to Paul Keating’s ‘banana republic’ comparison. The thesis considers this analysis in three discrete phases, where broad macroeconomic policy goals, policy instruments and policy autonomy outcomes are considered. In summary, these are:

Postwar to early 1970s (Primarily the Menzies government and the late-1960s)

Goals

- Largely inherited from the Chifley government of 1947-50.
- Covering full employment, stable prices, managing balance of payments, economic growth (nation-building).
- Goals varied in priority over this period as domestic conditions changed driven by a relatively consistent strong world economy.

Instruments

- Primary focus on wages and incomes policies, tariffs, credit controls, minimal use of fiscal measures.
- Bretton Woods system of fixed exchange rates and capital controls sheltered the terms-of-trade from some exogenous forces.
- Protectionism to shelter the Australian economy from destabilising exogenous forces and foster a Fordist economic environment.

Policy autonomy

- The policy autonomy boundaries were effectively set by the Chifley government and its innovative agenda and were rarely challenged during this period.
- Many observers argued that the Menzies government missed an opportunity to test boundary lines by not being more innovative and setting policies for longer-term objectives.

1970s to early 1980s (Primarily the Whitlam and Fraser governments)

Goals

- Prioritisation of the primary goals changed as stagflation set in, fighting inflation became the priority, followed by addressing both rising unemployment and declining growth.
- The external balance ordinarily looked after itself due to strong capital inflows and exchange rate management following the end of the Bretton Woods system and despite the faltering world economy.

Instruments

- The period commenced with the end of the fixed exchange rate system, weakening of capital controls and the rise of non-bank financial institutions. It was a period of inconsistent, changing and conflicting policies that expanded and contracted the economy often at the same time.
- The transition to monetary targeting to control inflation was introduced in the mid-1970s.
- During this period wages and incomes policies generally proved ineffective, tariffs were reduced, it saw a limited start to the deregulation of controls over the banks to increase the availability of credit.

Policy autonomy

- Policy autonomy was severely challenged during this period more by boundaries closing in due to exogenous forces and events (e.g., the oil shocks, the end of the Bretton Woods system, increased offshore competition, imported inflation), than government necessarily pushing out, although the Whitlam government did try but with mixed success.
- Confusion over policy structures and use of instruments often led to policy conflict, which reduced macroeconomic policy effectiveness and with it the rise in the perception of a limiting of policy autonomy, because choices were perceived to be narrowing and the economy was at the mercy of exogenous forces.
- Fordism started to be undermined by changing investment patterns as foreign investors slowed domestic re-investment and started to shift production off-shore.

Early 1980s to mid-1980s (First two Hawke governments)

Goals

- Initially, simultaneous objectives of bringing inflation under control and reducing unemployment through the Accord and stimulating growth.
- This was soon modified due to the inherited budget deficit blow-out and destabilising speculative currency flows resulting in a change to the stimulus strategy, the float and financial market regulatory changes.

Instruments

- Initially, monetary targeting was maintained as an accepted instrument to support the management of inflation, with a budget deficit to stimulate growth, and the Accord to manage wage expectations and encourage private investment.
- Monetary targeting fell away after two years as it was unworkable in practice and was more of an ideological token to placate the financial markets.

- The float of the dollar had a fundamental impact on future monetary policy instruments (interest rates) and its management (the role of the RBA). Growth was driven by a Keynesian style budget stimulus which was modified early on.

Policy autonomy

- Initially, the inherited budget deficit blow-out limited the new government's application of its Keynesian style policies.
- The Hawke government chose not to push out macroeconomic boundaries whilst the economy was brought under control but work within what they had inherited.
- The float created a window for policy autonomy as it neutered destabilising speculative inflows at least for a year and ultimately facilitated the market funding of the external balance.
- The liberalisation of the foreign exchange market (a benefit for a trading nation) and subsequently the introduction foreign banks (introducing competition) demonstrated a Labor party that was embracing the financial markets.
- In due course the government did push out policy boundary lines and extended the range of policy autonomy with social policies, such as re-establishing universal healthcare, expanding education and introducing occupational superannuation.
- By this time 'permission' had been granted both by the financial markets in the way they lauded Keating and by the electorate with Hawke being re-elected in 1984 (and subsequently in 1987 and 1990).
- However, the systemic terms-of-trade issue (i.e., international competitiveness and structure/composition of Australian industry) would press in on the government and it was not sustainably mitigated by the floating dollar. This issue and its impact on balance of payments was to trigger Keating's belief in a loss of policy autonomy and gave rise to the banana republic comment in 1986.
- Later, Professor Pitchford challenged the extent to which the external balance was a real issue or merely a construct of outdated economic thinking. Nevertheless, for the second half of the 1980s, the government was restricted by what it perceived as constricting boundary lines related to the external balance.

This thesis presents the case for proactive and reactive endogenous action to create the space, by re-setting boundary lines, to establish policy autonomy that allows government to set and execute strategy. In the case of the Hawke government it was a reformist program on a par with that of the Chifley government.

The thesis is divided into three parts: Part 1 presents a framework for the thesis by providing more background on my interpretation of the contemporary origins of policy autonomy. I then present a ‘lens’, based on the work of Jan Tinbergen, to provide form to the abstract nature of policy autonomy that is used to provide structure to my argument in Parts 2 and 3 of the thesis.

Part 2 examines the key exogenous forces and events that impacted Australian government policy autonomy over this period. These are primarily forces and events originating in the international arena, however this is not exclusively so, as Australian government policy choices also played a part in directly impacting policy effectiveness, boundary lines and policy autonomy.

In Part 3, the thesis examines the endogenous actions of the Hawke government of 1983 in the decision to float the Australian dollar and introduce currency and financial market reforms. The actions by government are examined in detail to highlight the nexus between the elected actors and the non-elected actors of the bureaucracy, against a backdrop of the exogenous forces of currency speculation. Far from being at the mercy of exogenous forces, the thesis asserts that through both *reactive* and *proactive* political-economic action the Hawke government re-established policy autonomy to enact its innovative and reformist agenda.

However, by 1986, the Hawke government was again under pressure from exogenous forces that threatened its newly won policy autonomy and gave rise to Paul Keating’s “banana republic” reference (O’Brien 2015, 236–37). This illustrates my assertion that policy autonomy is not a constant, it is in a state of flux just like the economic context of a nation-state, so the establishment and maintenance of policy autonomy requires persistent and skilful political-economic management. In Part 4, I summarise the key points of the thesis and conclude.

...

To simplify language within this thesis, I have adopted the following terminology:

Australian dollar – I have used this throughout despite the change from pound to dollar in 1966 and applied the corresponding Australian dollar exchange rate of £1 = \$2.

Bretton Woods system – encompasses the Bretton Woods Agreement and multilateral cooperation on capital controls that sat outside the formal ‘Agreement’.

Coalition – collectively the Liberal Party and its coalition partners have gone by different names over the period, I have used the term Coalition to represent this formal political group.

Nation-state – “a country, usually with its own culture, language, or customs, that is not part of or controlled by any other country” (Cambridge Dictionary 2025).

Policy autonomy – I am referring to ‘macroeconomic policy autonomy’ unless otherwise stated, and in the context of this thesis, it is the capacity of government (elected actors) to make independent decisions and implement macroeconomic policies (endogenous actions) to address the specific needs and circumstances of the nation-state, free from undue exogenous or external influence. Policy autonomy is considered in more detail in 1.1.

Reserve Bank – the formal manifestation of Australia’s central banking organisation changed over the period, but I have used the following names Reserve Bank, Bank or RBA.

United States of America – US.

West Germany – is called Germany.

A note on *Keating* – There are two ‘Keatings’ referenced in this thesis. Michael Keating, the author of *The evolution of Australian macroeconomic strategy since World War 2* (2015), and Paul Keating, the Labor government Treasurer from 1983 to 1990. Where necessary, I have distinguished between them in the text to avoid confusion.

I explicitly distinguish between *government* and its *bureaucracy*. Government is defined in this thesis as being the *elected* executive legislators (the cabinet) ultimately accountable to the electorate. The bureaucracy is defined as the *non-elected actors*, civil or public servants, who are accountable to the government. When I use the term ‘administration’, ‘policymakers’ or ‘economic managers’ it refers to the collective of government and its bureaucracy. This distinction between government and bureaucracy is important as it represents an embedded nexus of exogenous influence (the bureaucracy) on endogenous actions by the elected government. It became a hot-spot of ideological influence when ideologies within government and its bureaucracy diverged.

...

There is a relentless dynamic at play with politics shaping economic decisions and economics shaping political choices—all of which impact policy autonomy. It is within this constant turbulence that government operates and strives to achieve both its political and economic objectives. Whilst there can be no doubt that exogenous forces exert differing levels of influence over the range of choices open to government, ultimately policymaking power resides with the elected actors of government, principally the executive, within a structure that is a construct of the nation-state.

Part 1 – Policy Autonomy and the ‘Thesis-Lens’

1.1 Policy Autonomy

“...much of the history of policy development involves not the working of a fixed system of instruments, but attempts by policymakers to extend their effective reach, as well as developments elsewhere in the socio-economic sphere that frustrate them.”

Michael Beggs (2015, 19)

In Part 1 I provide some context relating to contemporary state-theory and detail three interlocking components of this thesis:

- I summarise the contemporary origins of policy autonomy within the Breton Woods system to support my definition.
- I present the criticality of macroeconomics as a cohesive tool of economic management to facilitate policy autonomy.
- I apply aspects of Tinbergen’s (1967) work to provide a conceptual framework of the policy autonomy construct (a thesis-lens), to analyse how the changing political-economic context from the end of the Second World War to the mid-1980s impacted policy autonomy, with a particular focus on Australia.

1.1.1 Context of Policy Autonomy within State Theory

Within this thesis, policy making autonomy is set within the context of an assumed autonomy for the state itself (as described by Theda Skocpol (1979; 1980; 2008; 2019), Berch Berberoglu (2017), Fred Block (1988), Evans et al (1985)), that acknowledges the concept of political legitimacy as a fundamental component of the state construct. The position taken in this thesis is that elected actors within the executive of government represent this political legitimacy. David Ciepley (2000) concurs by distinguishing between the autonomy of democratic leaders and that of government administrators, the latter having “independent histories” that may impact the policy autonomy of the former (Skocpol 1980, 200). Within the thesis this distinction, and its impact on policy autonomy, is highlighted in Part 3. However, Skocpol (2019) acknowledges there is a role, within an autonomous state, for the unelected actor both in the process of policymaking and in its implementation. But in addition to Skocpol’s unelected actors that impact policy autonomy, I include those elected actors that are not in the executive of government, such as the ruling party caucus and the elected opposition. In this way the test for effective policy autonomy in this thesis is judged by the actions of the elected executive of government alone and not those from a nebulous pool of ‘elected actors’.

Within the thesis I distinguish between endogenous actions and exogenous forces, to deconstruct the dynamics at play impacting the policy autonomy of the elected government executive. Skocpol (2019, 311), referencing Otto Hintze (1975), acknowledges the distinction between, what she describes as, internal and external forces, “we should not forget that states also always exist in determinant geopolitical environments...[that] create tasks and opportunities for states and place limits on their capacities to cope with either external or internal tasks or crises.”

Skocpol (2019, 312) overlaps with Tinbergen, who is discussed in more detail below, in acknowledging policy boundary lines of resistance that trigger policy reactions. In Skocpol’s words: “We must also focus upon the points of intersection between international conditions and pressures, on the one hand, and class-structured economies and politically organized interests, on the other.” Furthermore, Peter Evans (1995) mirrored Tinbergen’s position on the forming of boundary conditions by acknowledging that effective political outcomes are based on a synthesis of political and social factors.

Skocpol (2008, 114) also identified what she described as “policy feedbacks”, that “reshape politics over time”, in terms of the thesis this mirrors the concept of ‘permission’ that is granted to policymakers and that it is not a constant but is an iterative function that will have a direct impact on policy autonomy. In Skocpol’s (2008, 116) words, “public policies do not just result from politics, they also make politics.”

These considerations that transverse both state theory, as described by Skocpol and others, and policy theory, in this case as described by Tinbergen are explored in more detail in 1.1.4 and section 1.2, the Thesis Lens.

1.1.2 Bretton Woods

Keynes’ intent for a new world economic system after the Second World War was very much about establishing and preserving nation-state macroeconomic policy autonomy to facilitate, *inter alia*, world trade and reconstruction. This was in recognition of the varied economic circumstances and priorities of different nation-states. (Keynes had previously advocated monetary policy autonomy in his arguments against a return to the gold standard in the 1920s (Cammarosano 1987)). His recommended solution for achieving this during the ‘pre-Bretton Woods’ negotiations from 1941 to 1944 included an international Clearing Union as a platform for settlements between nations; ‘overdraft’ facilities for debtor nations; obligations on creditor nations to sustain market liquidity; long-term flexibility of exchange rates; and controls on capital movements. His proposal was ultimately rejected by the US in favour of what became the gold backed US dollar model with

fixed exchange rates, a stabilisation fund (the International Monetary Fund (IMF)) and a development fund that became the World Bank, and with no mention of embedded capital controls (McKinnon 1993; Donald J Markwell 2000; Steil 2013). This is explored in more detail in 2.1.1.

Despite the rejection of Keynes' model, policy autonomy remained front of mind following the commencement of the Bretton Woods system in 1947, but members of the new system found their expectations for policy autonomy somewhat clipped. The trade-off within the Bretton Woods Agreement was that individual nations would cede control over their exchange rate with all other nations doing the same, whilst cooperating to control destabilising cross-border capital and currency flows, the combination provided a basis for varying degrees of nation-state policy autonomy. But, and this is a difference between Keynes' Clearing Union and the gold backed US dollar model, the US held the trump card as other nations within the system were dependent on both the US's political-economic 'hegemonic-benevolence' and US dollar liquidity provided by US current account deficits, financial aid and direct investment—a dependency that would impact nation-state policy autonomy.

Interestingly, and as questioned by Helleiner (1996, chap. 9), despite the inexorable linkage between trade and finance, trade relationships were dealt with separately under the General Agreement on Tariffs and Trade (GATT) and not within the Bretton Woods Agreement. A decoupling that would impact smaller export-dependent nations such as Australia. Helleiner (1996, 206) saw liberal trade and liberal finance as “uneasy bedfellows”, that can undermine national policy autonomy because of the political-economic choices it demands. This situation was understood by the Australian delegation at the Bretton Woods conference who feared that this decoupling of trade and finance could have an adverse impact on the export dependent Australian economy which drove employment, and was one reason why Australia sought to have the objective of full employment included in the Bretton Woods Agreement—it was vetoed by the US. This is considered later.

1.1.3 Macroeconomics

The construct of policy autonomy became truly realised only when *macroeconomics* had evolved to the point that it could act as a wholistic and cohesive framework for policymaking. This framework, it too being a postwar construct, did not evolve by design but evolved through the synthesis of empirical research, theoretical and intellectual discourse, organisational practicalities, and what amounts to trial and error (Crisp 1961, 321–24). These organisational practicalities include bureaucratic structures and “the reorganisation of the state's economic apparatus into a

coherent mechanism for acting strategically within the economic system” (Beggs 2015, 16). Beggs (ibid., 15), referencing de Brunhoff, regards macroeconomics as a “postwar phenomenon. It took the mobilisation of war and reconstruction to overcome institutional inertia and reorganise the institutions, and it took a decade or two for the new sensibility in economic theory and policy to cohere into fully-developed orthodoxy”.

So, with the dawning of the macroeconomic age came a means for effective economic management within the rules of the prevailing Bretton Woods system and the national policy autonomy it fostered. This despite the potential ‘contradiction’ of national economies, each with their own policy preferences and trading dependencies, and each striving for policy autonomy. To address this ‘contradiction’ The Organisation for Economic Co-operation and Development (OECD) was founded in 1961, with Australia joining in 1971. Webb (2019, ix) described the transition of the OECD, he identified a conscious shift from the “*cooperative* strategies” (italics added) in the 1950s and 1960s, primarily related to capital controls, that insulated national macroeconomic policymaking to facilitate trade, growth and full employment. To one of international *coordination* of monetary and fiscal policies to neuter the growing speculative and destabilising international financial markets—being a trade-off of degrees of policy autonomy for greater financial market stability. In due course this coordination of policies would reflect the ideas and values of neoliberal ideology, leading to a *convergence* of macroeconomic policies—further impacting the degree of policy autonomy for OECD members.

The role of macroeconomics as a facilitating discipline is explored in 2.1.2.

1.1.4 Tinbergen’s Boundary Conditions and Defence Lines

To give form to the abstract construct of policy autonomy I have drawn from the work of Jan Tinbergen. For clarity this thesis does not explore Tinbergen’s more famous ‘golden rule’ that for successful policy implementation the number of independent instruments should equal the number of independent targets. Rather I have adopted Tinbergen’s insights into socio-political dynamics that relate to the policymaking process, and I relate macroeconomic policy autonomy to policymaking that resides within a ‘zone’ of power as delineated by Tinbergen’s (1967, 25–26) ‘boundary conditions’ and ‘defence lines’ or ‘lines of resistance’. I consider Tinbergen’s terms, which I have modified to some degree, in more detail below.

Tinbergen (1967) described ‘boundary conditions’ and ‘defence lines’ as economic and socio-political triggers that either repel policy choices or render them ineffective—both of which impact policy autonomy. Collectively they are *lines of resistance* where policy is limited or challenged,

typically by non-elected actors or other elected actors who are not part of government, or from other economic factors outside the control of the government of a nation-state.

Policy boundary conditions and defence line overlap and interrelate. Firstly, boundary conditions are a limit to the effectiveness of policy, for example a policy to build new homes beyond what is physically possible will impact policy effectiveness, because it cannot be achieved. Alternatively, a hike in tax rates beyond a certain limit may trigger a reaction that drives tax evasion or migration which reduces tax income—impacting policy effectiveness. Defence lines can be seen as socio-political barriers that will trigger resistance, Tinbergen (1967, 26) uses the example of wage reductions (real and nominal) that “may arouse such opposition among workers that a certain boundary condition should be recognised here. One may say that boundary conditions sometimes represent the defence lines of certain...groups, but they need not always be justified defence lines.” A contemporary example is where macroeconomic policy runs counter to a credit-rating agency’s ideology leading to a down-grading of a nation-state’s rating, driving up the cost of government borrowing, or even necessitating a ‘U-turn’ in policy—a palpable example of a boundary line that limits policy autonomy. Other examples are given throughout the body of the thesis.

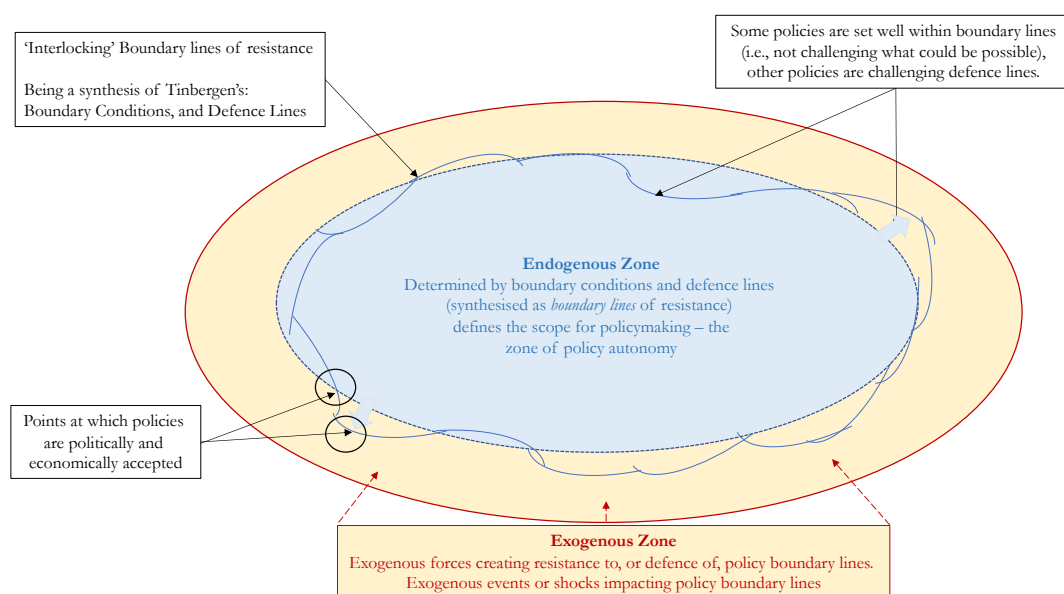
For this thesis, I have morphed Tinbergen’s *boundary conditions* and *defence lines* into a composite of policy *‘boundary lines’* of resistance, and in the text I use all three italicised terms. I have modified Tinbergen’s model to take account of the contextual changes to the world economy since his research in the 1950s. For example, *‘boundary lines’* will reflect the ideological changes from the Keynesian-synthesis to neoliberalism; the power and scope of the international financial markets to resist policy choices; and the power of transnational or globalised corporations to switch production locations driving a climate of nation-state competition. Figure 1 provides a graphical representation of the ‘thesis-lens’, and is considered in more detail in section 1.2 and figure 2.

In this thesis, and as noted above, policy autonomy is relative to the boundary lines that are set by a combination of exogenous and endogenous dynamics (see figure 1). ‘Inside’ the boundary line can be considered the endogenous zone, ‘outside’ is the exogenous zone. ‘Inside’ is subject to endogenous actions (e.g., multiple policy decisions) and tensions (e.g., conflict between different government priorities and different elected actors) it is where elected actors and government exercise their power; ‘outside’ is subject to exogenous forces (e.g., capital and currency markets, globalisation, ideological change, media, think tanks, policies of other nation-states, economic activity outside the control of government) and events (e.g., oil shocks, wars, droughts) and is home to the non-elected actor. For government there is a choice as to where they set policy relative to the perceived boundary lines. A policy that extends the boundary line, may trigger an exogenous

adverse reaction, or it may get a positive reaction or gain *permission* (either explicit or implicit) from the exogenous non-elected actors.

A key question for policymakers is at what point will there be resistance, a counterreaction or retaliation if a policy is pushed over the boundary line? I have divided boundary lines between socio-political or economic. An Australian example of a socio-political boundary line was the goal of full employment following the Second World War, if that policy had been openly weakened in the 1950s an electoral and political backlash may have been triggered. In fact it was not until the early 1970s under the Whitlam government that full employment ceased to be an explicit primary goal—being supplanted by price stability that had a greater socio-political consequence. An example of economic boundary lines are fiscal changes, such as the comparative level company taxation, after which investment may diminish or even be driven offshore. But some are a mix of both political and economic, for example, during the period when the Australian dollar exchange rate was set by government committee a reaction would be triggered by exporters, and their elected representatives (political), if the exchange rate was set too high to combat imported inflation (economic). Consequently, boundary lines are inevitable in setting policy, because of the impact of policy on behaviour and other choices.

Figure 1 – Graphical representation of Tinbergen’s Boundary Conditions and Defence Lines combined with the ‘Thesis-Lens’ (s1.2).



Some boundary lines will be palpable or ‘tangible’, in that policymakers will anticipate a likely reaction, such as those experienced by the UK government in 1967, the Mitterrand government in 1981, or how credit rating agencies overtly react to budget announcements today. But other

boundary lines may be poorly defined or ‘invisible’ and only apparent when crossed, triggering a reaction, such as destabilising currency and capital movements that are seeking an arbitrage position, pure speculation or an ‘irrational’ contrarian response to a political event as happened in March 1983 against the newly elected Hawke government.

Governments may not necessarily try to extend boundary lines, increase their policy reach and the extent of their autonomy, but may choose to operate comfortably within the ‘endogenous zone’, despite the fact they may have an opportunity to do more. Furthermore, given the dynamic nature of boundary lines and changing political-economic contexts, policymakers and governments need to recognise that ‘permission’ may be withdrawn, or an exogenous event may detrimentally re-set a boundary line, for example a currency crisis impacting imported inflation.

The boundary line premise is critical in understanding policy autonomy. Firstly, considered from a political context to what extent will a government (elected actors) choose to push up against boundary lines to meet its political objectives, and how well are those boundary lines defended by non-elected actors, for example, from within the bureaucracy or international currency and bond traders. Secondly, what is the broader economic environment or context within which the government chooses to operate, what are the ‘rules of the game’, as has been described by McKinnon (1993). To what extent does a government have ‘political-economic currency’ or ‘permission’, a mandate, and the will to challenge boundary lines to meet its objectives, and can it bring its bureaucracy with it? This is explored in part 3 when I examine the exogenous actions of the Hawke government.

1.2 The ‘Thesis-Lens’

The thesis considers the influences on policy autonomy as driven by one or a combination of **exogenous forces or events** and **endogenous actions and tensions**. These are considered in more detail below and are graphically depicted in figure 1. (Note: I am not using the econometric use of exogenous or endogenous terminology within this thesis.)

Exogenous forces or events – being those exerted on government (*elected actors*), directly or indirectly, by *non-elected actors*:

This includes ‘philosophical’ and ‘existential’ forces, such as:

- The evolution of macroeconomic thought which established norms and parameters of ‘accepted’ conventions (i.e., boundaries) and methodologies that influenced policymakers and policymaking.

- Changing ideologies and their direct and indirect influence on government and its bureaucracy, leading to a change in how governments were judged by non-elected actors, such as the bureaucracy, financial markets, and the media. In this context I explicitly consider the impact of neoliberalism, or the Australian ‘rationalist’ construct, as an exogenous force.
- Globalisation or transnationalism, including the pervasiveness of a common ‘business school’ approach and transition from national comparative to national competitive advantage.

The evolving financial markets (domestic and international), including:

- ‘Real-economy’ finance, e.g., investment capital and trade finance.
- Speculative short-term currency trading and capital flows.
- New financial products to de-risk financial trading.
- The speed with which transactions are completed between geographies.
- The increasing universality of information.

The evolving international institutional economic interrelationships, including:

- Bretton Woods/IMF.
- GATT.
- Bank of International Settlements (BIS).
- OECD.

Systemic systems changes, including:

- The Eurodollar market as a disruptor of capital and currency controls.
- The end of the Bretton Woods system.
- Increased efficiency, effectiveness and reliability of communications and data processing.

Shocks to the economy, including:

- Droughts.
- War.
- Oil supply and prices.
- Resource booms.

Economic conditions, including:

- Imported inflationary pressures.
- Domestic wage inflation (real and expected).
- Changes to domestic investment.
- Trade – changes in offshore demand and supply.

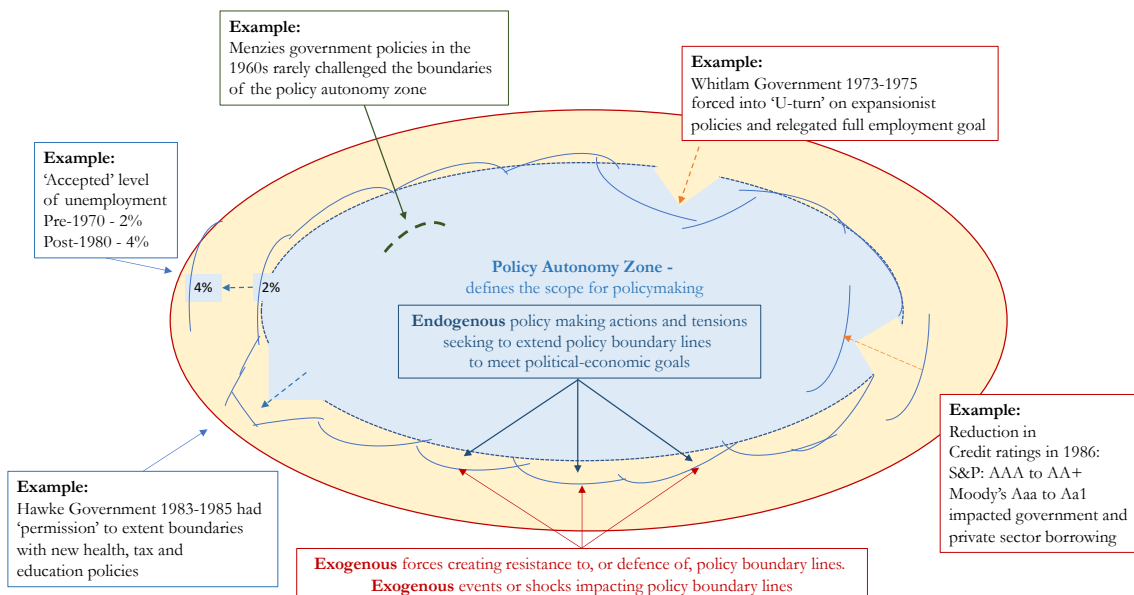
Endogenous actions and tensions – being those exerted by, or active within, a freely elected government whilst acknowledging government authority derives from both the electoral process and the electorate. Including:

- Enactment of election pledges and policy strategies.
- Cabinet and government function decisions.
- Delegated authority and related decisions of government agencies.
- The non-coercive interplay of policy development between elected and non-elected policymakers.
- The evolution of economic management and policy options as it is represented by the free decision-making of elected actors.

It allows for *due process* whereby government freely accepts the influence of other elected actors not in executive government, and non-elected actors which includes the electorate itself.

Figure 2 overlays the graphic in figure 1 with the above thesis-lens with examples to illustrate the thesis argument.

Figure 2 – Graphical representation of the policy autonomy zone derived from Tinbergen’s ‘policy boundary lines’ combined with the ‘Thesis-Lens’ and Australian examples.



In the context of the thesis-lens, I consider the endogenous actions of government to understand the extent to which policy autonomy has been maintained, eroded or de-democratised. Where possible the distinction is made between government having the power and means to be *proactive* to retain political-economic control, or *reactive* to exogenous forces and events. The ‘reactive’

response is further divided into *positively reactive* and *negatively reactive*. ‘Positively reactive’ relates to those decisions where the government’s action has demonstrated a continuation or re-establishment of policy autonomy, whereas a ‘negative reaction’ is a demonstration of a loss of policy autonomy. For example, the ‘Nixon Shock’ of 1971 can be seen as a *positive reaction* by the Nixon administration as the US government re-established control over the US dollar on its own terms, and in Helleiner’s (1996, 112–22) opinion, the US preserved its policy autonomy. Whereas the UK’s 1976 Sterling crisis, that led to the largest yet bailout by the IMF, can be seen as a *negative reaction* to exogenous forces due to the restrictions placed on the UK government (thus limiting policy autonomy), making itself directly accountable to the IMF until 1979 when the loan was repaid (Helleiner 1996, 124–30).

A government changing policy to meet new systemic events or exogenous shocks is not necessarily a loss of autonomy if it is not ceding power to non-elected actors. For example, the sudden and effective end of the Bretton Woods system in 1971 was both a ‘shock’ and ‘systemic change’ triggered by the Nixon administration. Along with other nations, this required a change of policy by the Australian government from a *range* of available options. However, it could be argued that the end of the Bretton Woods system made the Australian economy (and policy autonomy) more exposed to the US dollar, a situation that in reality existed anyway, and post-Bretton Woods the Australian government gained the capacity to unilaterally adjust the value of, or float, the Australian dollar as part of monetary policy strategy.

In this thesis ‘proactive’ and ‘positively reactive’ policy action is seen as a proxy for policy autonomy, likewise ‘negatively reactive’ policymaking is seen as a proxy for an erosion of policy autonomy. The reality, of course, is that it can never be as simple as this as there will be a convergence of influences and trade-offs in most policymaking processes (Tinbergen 1967; Strange 2000).

To support the thesis, part 2 considers the exogenous and endogenous dynamics that impacted boundary lines and policy autonomy both during the Bretton Woods system and after its collapse to the mid-1980s. This is considered from both international and Australia specific perspectives. Part 3 examines in detail the endogenous actions and tensions in 1983 that led to the float of the Australian dollar and other financial market changes that contributed to re-establishing Australian policy autonomy under the Hawke government allowing it to pursue its reformist agenda.

Part 2 – 1947-1986: Changing Forces and Evolving Context

“...in the contemporary world the affairs of nations are indeed shaped by factors which are given in the structure of the world economy and which lie beyond the reach of national governments and local economic and political actors.”

Pusey (1991, 209)

In Part 2 of the thesis, and using the definitions in 1.2 *The ‘Thesis-Lens’*, I explore some of the major exogenous forces and events, and endogenous actions and tensions, that impacted policy autonomy generally, and specifically that of the Australian government from the end of the Second World War to the mid-1980s. Firstly, this section focuses on four key global exogenous forces that both impacted the context of the Australian economy and were beyond the control of Australia’s economic managers, namely:

- The evolving international financial system.
- The development of international macroeconomics and related policies.
- The rise of neoliberal ideology.
- Globalising processes.

These themes, which are by degree interrelated, generated exogenous events and shocks that impacted global economic conditions and as a consequence the achieving and sustaining of policy autonomy for nation-states generally, and Australia specifically. To reiterate the point they were forces that were determined outside Australia, impacting boundary lines and necessitating some response by the Australian administration to preserve policy autonomy. There is an exogenous interplay at work, not only between these forces and the governments of nation-states, but also between nation-states themselves due to the increasingly interconnected nature and form of global trade, with a shift from comparative to competitive advantage which is discussed in the section on globalisation (2.1.4).

I then examine Australian policy autonomy from two perspectives from the end of the war to the mid-1980s, being:

- The *context* of economic strategy and performance, that had a profound influence on the confidence of the economic managers of the day. By the late 1960s the ‘long boom’ was lulling government into complacency that policy autonomy could be ‘assumed’, a condition that would fall apart in the 1970s when Australia became subject to scarifying exogenous forces and shocks, and where endogenous action (i.e. policy) proved largely ineffective. It would take positively reactive and proactive policy actions under the first Hawke government to restore policy autonomy—for a period.

- The political-economic *transition* through the different governments and changing economic circumstances. I explore some of the endogenous actions and tensions as the government picked its way through the changing political-economic landscape, a landscape buffeted by exogenous forces requiring the re-establishment of control over the economy. When economic conditions moved into unknown territory, stagflation for example, economic managers found themselves wanting as conventional policy instruments proved ineffective, with expertise and experience replaced by unproven ideology.

The discussion in Part 2 feeds into Part 3, where I ‘deep-dive’ into the endogenous actions and tensions of 1983 when the Hawke government strived to re-establish policy autonomy following the destabilising exogenous events and shocks, and largely ineffective endogenous actions, of the previous decade. It illustrates that policy autonomy is not a given but must be established and maintained through political means and effective policy strategy.

To articulate the thesis Part 2 is organised around themes, not chronologically, consequently many common issues are examined from different perspectives to present a more wholistic and interrelated argument.

2.1 Exogenous Forces and Events

2.1.1 The evolving international financial system

During the Second World War and in the wake of the destructive forces of the Great Depression planning for a new international financial system got underway. An objective of the new system was to create an international environment that facilitated economic stability, international cooperation and nation-state policy autonomy, that would enable reconstruction, growth, trade, full employment, leading to an enduring peace (Donald J. Markwell 2000). John Williamson, quoted in McKinnon (1993, 14) described the underlying model as follows, “For a given distribution of the world's capital stock, the international monetary order was intended to sustain allocative efficiency in (multilateral) trade in goods.” And McKinnon (1993, 12), referencing Keynes, stated:

The economic debacle of the 1930s gave birth to the doctrine that each country should have free rein to manage its own macroeconomy...Keynes...wanted to prevent the reestablishment of any common international monetary standard that would again limit the autonomy of national governments to determine their own monetary policies.

The new system that emerged, embodied in the Bretton Woods Agreement, was ratified by some forty-four countries in July 1944, but it very much reflected the will of the US which at the time

controlled two-thirds of the world's gold and much of its industrial capacity (Steil 2013). McKinnon (1993) made a distinction between what he described as firstly, "The Bretton Woods Agreement in 1945: The Spirit of the Treaty" and secondly, "The Fixed-Rate Dollar Standard, 1950-1970", the former being the written agreement and the latter being how it operated in practice following the international financial crisis of 1947-48 and the implementation of the Marshall Plan. The original Bretton Woods system (the "Spirit") had a set of symmetrical rules, but the eventual system had an asymmetrical outcome—being one set of rules for the US and a different set for all other industrial countries, with a consequential impact their policy autonomy.

The original Bretton Woods system of 1945 intended to provide exchange stability without the rigidity of the gold standard through fixed but adjustable par-values (Bernstein 1989). McKinnon (1993, 13) described one objective of the original "Spirit" as:

National macroeconomic autonomy: each member government to pursue its own price level and employment objectives unconstrained by a common nominal anchor or price rule.

McKinnon and Williamson (1987) believed this objective failed to materialise in the eventual Bretton Woods system of 1950-70, in its place, according to McKinnon, was a system that granted policy autonomy for the US and not necessarily for the other major industrialised nations, including Australia. Under the eventual Bretton Woods system:

In effect, virtually fixed exchange rates and a common price level for tradable goods were reimposed; and the macroeconomic autonomy of each participating country was again constrained by an international monetary standard. Thus, the spirit of the largely unwritten rules on how the game was actually played from 1950 to 1970 differed enormously from what the negotiators had intended in 1945. (McKinnon 1993, 15)

At the heart of the '1950-1970 Bretton Woods system' was the convertibility of member country currencies into US dollars to within 1 percent of the agreed fixed parity rates, with the US dollar convertible into gold bullion at a fixed price. The belief was that fixed exchange rates would create stability and confidence, facilitate international trade, help stimulate national economies, and prevent the 'beggar-thy-neighbour' or competitive devaluation syndrome prevalent before the war that often pitched nation against nation (Rothermund 1996, 6).

Key to maintaining fixed exchange rates were the rigid controls over cross-border movements of capital and currency, with many of the capital controls in place since the 1930s (Helleiner 1996, 51). Keynes (1969, 31) stressed the criticality of these controls for macroeconomic management and policy autonomy:

There is no country which can, in future, safely allow the flight of funds for political reasons or to evade domestic taxation or in anticipation of the owner turning refugee. Equally, there is no country that can safely receive fugitive funds, which constitute an

unwarranted import of capital, yet cannot safely be used for fixed investment. For these reasons it is widely held that control of capital movements, both inward and outward, should be a permanent feature of the postwar system.

McKinnon (1993, 14), in his *Rules of the Game* asserted, “Keeping national capital markets segmented was seen as necessary for pursuing the overriding principle of national macroeconomic autonomy.” In turn, Quiggin (1999, 244) believed the combination of capital controls and the cooperation between nations:

...allowed for both fixed exchange rates and sufficient freedom in economic policy to permit the maintenance of full employment. The objective of the system was to expand trade in goods but ensure that fluctuations in exchange markets did not create instability like that of the Great Depression. Hence, although tariff barriers were reduced, tight restrictions on capital movements were retained.

Importantly, capital controls would tie “cross-border capital movements largely to the ‘real’ economy of trade and production” (Bell 1997a, 347). Through postwar cooperation and the Bretton Woods Agreement a lid had been placed on the potentially disruptive forces (and those that impacted policy autonomy) of international finance and currency speculation, thus allowing nation-states, including Australia, to follow their own economic agendas relative to their own circumstances. As described by Helleiner (1996, 4–5):

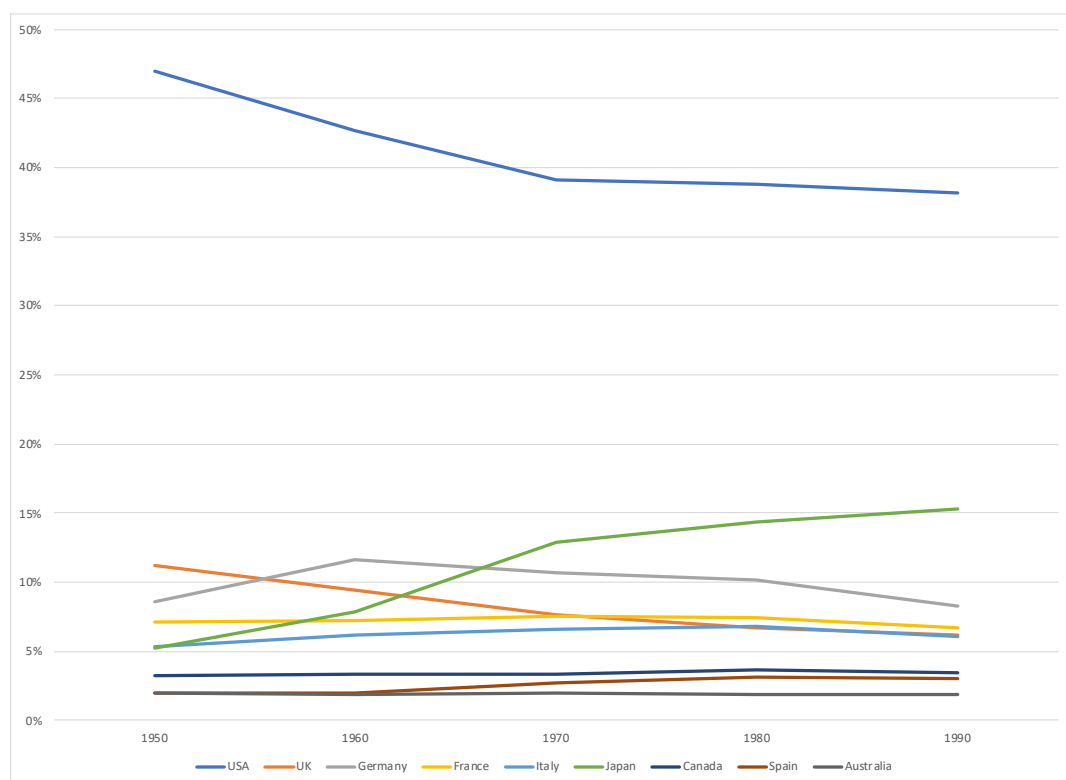
The embedded liberal normative framework in finance was strongly backed by a new alliance of Keynesian-minded state officials, industrialists, and labour leaders who had increasingly replaced private and central bankers in positions of financial power in the advanced industrial world during the 1930s and World War II. Whereas bankers continued to support a liberal ideology in finance, members of this new alliance favoured more interventionist policies *that would make finance the ‘servant’ rather than the ‘master’ in economic and political matters.* (italics added)

Beggs (2015, 34) identified, “one of the factors affecting the ability of government to pursue particular policies is the policy of other countries”. This was particularly true for the smaller nations, such as Australia, that were very much at the mercy of the more economically powerful. Applying McKinnon’s thesis, whilst there may not have been a *carte-blanche* Keynesian approach to policy autonomy, the system of fixed exchange rates and capital controls did establish policy boundary lines that provided degrees of policy autonomy for an Australian economy dependent on trade and inward investment.

Australia signed the Bretton Woods Agreement in July 1944, but it did not join the IMF and World Bank until 1947. The delay by the Australian Labor government was due in part to their ideological animosity over the two institutions. Animosity, which had been shaped by the refusal of the US to adopt the Labor government’s position on making full employment an explicit goal of the new international economic system. A further issue for the Australian politicians was their belief they would cede policy autonomy over the critical issues of trade and balance of payments both to the

IMF and, given its political-economic power, the US. With uncertain times ahead following the end of the war, and Australia's fundamental dependence on international commodity markets, would membership of an unproven new international financial system, dominated by a hegemonic US, mitigate this vulnerability with its consequences for policy autonomy (Donald J. Markwell 2000)? As one of the relatively small, advanced economies (figure 3) Australia's ability to maintain policy autonomy, even under the Bretton Woods system, would be tested. As Beggs (2015, 38) noted, "Economists, policymakers and unionists in Australia were acutely conscious of how the international monetary environment affected what domestic policy could do, and divined from the outset the coming tensions."

Figure 3 – Relative GDPs of selected OECD member countries - 1950-1990*



Source: OECD (2006)

*Notes: Relative to all OECD members as of June 1971
Stated in 1990 international Geary-Khamis dollars

Helleiner's 'master' (the economy) and 'servant' (financial markets) relationship was under pressure from the end of the Second World War, and a sign of what was to come two decades later occurred with the 1947-48 international currency crisis. Helleiner (1996, chap. 3) described the changing political balance of power in the US following the death of Franklin D. Roosevelt in April 1945. It allowed the ascendancy of New York bankers whose influence over economic policy led to the lifting of restrictions over US dollar-sterling convertibility and an attempted return to pre-1931 economic orthodoxy for the rest of Europe. But:

Within six weeks of moving to convertibility, Britain was forced to resort to a system of tight exchange controls because of massive speculation against the pound. Elsewhere in Western Europe, efforts to implement orthodox economic policies and achieve liberalization were defeated as inflation accelerated rapidly and exchange controls were tightened to cope with large external deficits. (Helleiner 1996, 54)

It is worth considering Helleiner's description of the motivation behind these 'New York bankers' of the late 1940s, as it is a motivation that will 'break out' again from the 1970s but enhanced with both a new political-economic ideology and a fundamentally more powerful financial sector, and ultimately impact Australia's policy autonomy (Bell 1997b, 101). Helleiner (1996, 57) believed that these powerful bankers of the late 1940s had little regard for the hard realities of a postwar Europe struggling with reconstruction. That was a political issue, not one for bankers. The bankers' goals were both short-term, by making a significant profit from currency and capital flows between Europe and the US, and long-term by "making New York the key international financial center after the war" (ibid.). Over a decade later in the 1960s, there was to be a new source of pressure on capital and currency controls with the emergence of the Eurodollar market, which was to undermine the effectiveness of capital and currency regulation and impact policy autonomy primarily in the northern hemisphere industrialised economies. By varying degrees over this period the law makers in the US and Britain allowed their financial centres in New York and London to create this new international financial market that sat outside the Bretton Woods system—to the pecuniary benefit of their own competing financial centres and the political advantage of their governments (Helleiner 1996, chap. 4).

These fermenting financial market pressures were to grow over the following decades, and whilst originating in the US-Western European theatre, their impact would be felt in Australia, and elsewhere. Helleiner described the scale of the break from the real economy, with currency and financial products increasingly becoming trading commodities in their own right, creating an exogenous force that would undermine policy autonomy aspirations of postwar nations:

Beginning in the late 1950s...private international financial activity increased at a phenomenal rate. Global foreign exchange trading, for example, was negligible in the late 1950s but by the early 1990s had grown to a daily value of roughly \$1 trillion, *almost forty times the daily value of international trade*. Similarly, gross international capital flows totalled \$600 billion by the end of the 1980s, a figure almost *twice the size of aggregate global current account imbalances*. (Helleiner 1996, 1), italics added.

Not since the 1920s had capital and currency become so much more than a facilitator of investment and trade. Shrugging off the 'servant' relationship to the economy, their disruptive potency as financial commodities was to undermine national policy autonomy and the Bretton Woods system. However, as many scholars have asserted this rising 'new order' was not merely the result of profit seeking international bankers and currency traders it was far more complex, encompassing explicit political choices, broad competitive forces between nation-states, new

financial products, new technologies, powerful lobby groups and changing political-economic ideologies (Helleiner 1996; Bell 1997b; Bryan and Rafferty 1999; Eichengreen 2008). Exogenous forces that would become more pervasive and destabilising from the late 1960s and into the 1970s.

As the 1960s progressed the US's position in the world economy changed. The US was faced with an increasing number of external and internal issues that led to a growing external deficit, a rising budget deficit, and rising inflation. Concern began to mount in the international financial markets over dollar-gold convertibility, which in turn stimulated speculative pressure on the US dollar. The US government sought ways to maintain its policy autonomy and not be forced into politically unacceptable adjustments. One measure chosen by US policymakers was the further liberalisation of the domestic financial system to encourage foreign governments and investors to finance the US deficits through the Eurodollar market (Helleiner 1996, chap. 4). This change in the US's position would impact the sustainability and relevance of the Bretton Woods system, and consequently Australia's reliance on that system.

As noted above, the Bretton Woods system was highly dependent on cooperation between the member nation-states. However, as the various member nation-state economies grew and developed in different ways, national policy objectives diverged. One critical area was the external balance of the US that moved towards a deficit whilst other countries, such as the northern Europeans and Japan moved into greater external surplus. Conflicts over the use of different policy strategies, typically centred on capital controls, started to undermine policy cooperation between nations and more unilateral positions began to be taken, particularly by both the US given its sheer economic scale and the emerging creditor nations given their growing surpluses and their growing role in funding the US deficit (Strange 1990).

Many writers, (Helleiner 1996; Eichengreen 2008; Steil 2013), expressed surprise that the Bretton Woods system lasted as long as it did, given the increasing and conflicting policy positions of its larger members, and the increasingly disruptive power of the international capital and currency markets. Nevertheless, the 'existing order' based on Bretton Woods "retained considerable strength throughout the 1960s" (Helleiner 1996, 82). With both the US and Britain continuing to use capital controls "at the same time that they were supporting the offshore Eurodollar market. The decade was thus one of transition" (ibid.). A transition that was largely lost on Australia at that time as the country remained protected from significant exogenous financial market forces through tight regulation, although this was beginning to change with the rise of non-bank financial institutions, this will be considered below.

By 1971 pressure was mounting within the US from financiers, politicians, and policymakers to address the US's funding issues by changing the Bretton Woods system and introducing further financial market deregulation. Bell (1997a, 347) described what followed as, "a process of competitive deregulation" between the major industrialised nations (excluding Australia, that did not make any strategic change until the first Hawke government), where currencies were floated and exchange controls abolished, finance became "globalised", and international financiers regained the market freedoms they "enjoyed in the pre-World War II era and particularly the pre-World War I era" (ibid.). These forces were to impact Australia at a time of increased political volatility (*endogenous tensions*) in the mid-1970s and ideological change (an *exogenous force*) within Australia's policymaking elite, all of which was to impact policy boundary lines, which is considered below. Helleiner summarised the criticality of the 1970s to the northern hemisphere economies by referencing Daniel Sargent (2013) in *The Cold War and the international political economy in the 1970s*, as a "decade that brought the ascent of globalisation and financial deregulation, the reorientation of advanced capitalist economies towards services and post-industrial production, and the end of the extensive growth patterns of the 1950s and 1960s." Changes, other than the impact of stagflation, that were not fully comprehended or addressed by Australian governments until the Hawke era from 1983.

So after twenty-five years, this contextual change led to the scrappy end of the Bretton Woods Agreement in 1973 (Eichengreen 2008, 121). The arguably flawed design of the Bretton Woods system can be seen as the supremacy of political and financial wilfulness over economic expediency (McKinnon 1993). The political and financial wilfulness was a product of American nationalistic and financial hegemony, the economic expediency was a recognition of the ultimate limitations of using the US dollar as a reserve currency tied to gold, as expounded by Robert Triffin (IMF, n.d.). As the global economy grew through the 1950s and 1960s so did the demand for both US dollars to provide international liquidity, and for gold to provide backing to the dollar. Inevitably, at least to Keynes in 1944 and Triffin in the 1950s, the US economy could not maintain its economic growth to supply the world's need for dollars without, *inter alia*, creating internal inflationary pressures. As Henry H. Fowler, US Secretary of the Treasury, acknowledged in the mid-1960s, "Providing reserves and exchanges for the whole world is too much for one country and one currency to bear" (IMF, n.d.). This untenable situation was compounded by factors including: the unbalanced 'dollar glut' of foreign holdings of US dollars; differentials in external balances between the US and the restructured economies of Europe and Japan; increasing internal deficits in the US driven by the war on poverty policy from Johnson's era; and the debilitating cost of the Vietnam War. Inevitably, by 1971 these pressures drove US inflation from a steady 2.6 percent to around 6.1 percent and US unemployment to a politically unacceptable 5.8 percent (Eichengreen 2008,

128–33). The fall in the effective value of the US dollar put pressure on the fixed dollar-gold conversion rate, which fuelled greater speculation as gold was trading privately well above its official price. Also, around this time, financial market forces were made even more potent by the major international banks forming cross-border syndicates to exploit arbitrage opportunities and by speculating against the currency markets on an unprecedented scale (McCauley, McGuire, and Wooldridge 2021). In summary, exogenous forces were building and were far beyond the control of the Australian government, they would in due course destabilise the Australian economy and deprive the government of the policy autonomy it had enjoyed for two decades under Bretton Woods.

By mid-1971 there was yet another damaging run on the US dollar, resulting in Germany leaving the Bretton Woods system. Germany uncoupled the deutschemark from the US dollar to mitigate inflationary inward capital flows and protect German policy autonomy, whilst other nations swapped US dollars for gold depleting the US reserves. Eventually, and despite almost a decade of different measures by US administrations to retain domestic policy autonomy within the Bretton Woods system, on 15th August 1971 President Nixon announced a suite of actions which included the suspension of dollar-gold convertibility. Nixon's intent was to restore convertibility once the Bretton Woods system had been reformed to meet the changed needs of both the US and to a lesser extent the other dominant economies. But despite numerous attempts to reach consensus and in the face of significant financial market speculation against the US dollar, dollar-gold convertibility was not restored and in March 1973 the US dollar floated, followed by most of the leading industrial economies (Eichengreen 2008, 131). This signalled the practical end to the Bretton Woods system and by January 1974 the US had abolished all remaining capital controls, effectively ending the era of international cooperation to manage capital and currency movements, and removing one of the primary monetary policy instruments available to the leading economies with a consequential impact on nation-state policy autonomy. As described by Banuri and Schor (1992b, 2):

The Bretton Woods system, which managed international financial relations after the Second World War, disintegrated during the 1970s. Whatever its shortcomings, this system had provided a certain level of stability. Although based on the hegemony of the USA, *its foundation was nationally based macro-economic policy*. In essence, it was a system of national regulation, made viable by a stable set of international linkages. (italics added)

Eichengreen (2008, 113-14) saw the actions by the US as weaponizing the dollar to preserve US policy autonomy and facilitate the continued funding of the US deficit to preserve US financial hegemony. The US's actions replaced a 'public interest' Bretton Woods system with a 'market-based' system, whereby the relative size of the US economy, with its well-developed financial

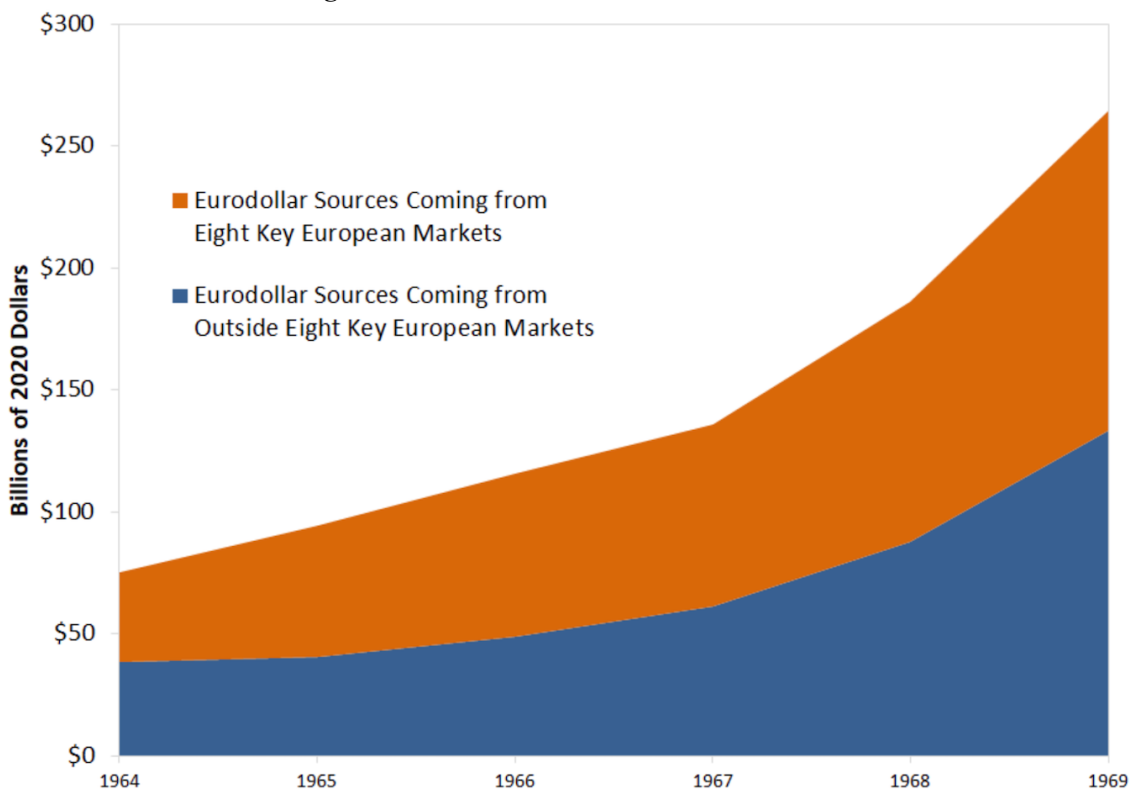
institutions and its attractiveness to investors, would ensure a renewed “structural” economic dominance—limiting “the range of choices open to others” (Strange 1988, 31), including Australia.

In considering the demise of the Bretton Woods system, Eichengreen (2008, 135) noted the change in political relations between the US, Europe and Japan resulting in a weakening of the “interlocking web of political and economic bargains” that had preserved the Bretton Woods system. Many of these “bargains” had been forged by politicians and bureaucrats who had had a shared legacy of the Great Depression and postwar reconstruction. However, as time passed Helleiner (1996, 112–22) identified the generational and consequential ideological change within the US administration in the late 1960s, and particularly following the election of Nixon in 1969. It “represented a marked shift from the more benevolent hegemony of the early postwar years. The change was caused primarily by threats to US policy autonomy that had not arisen in the early postwar period” (Helleiner 1996, 114–15). Helleiner’s generational shift was mirrored in the administrations of many other countries, including Australia from the late 1960s, that had a consequential impact on the ideological support for existing policies.

A further reason for this shift from ‘US benevolence’ was the rising influence of neoliberal attitudes during the Nixon and Ford terms, two influential neoliberal advisers were Gottfried Haberler, a leading member of the Austrian school, and George Shultz. Shultz was Treasury Secretary 1972–74 and was affiliated to Milton Friedman and the University of Chicago, as Helleiner (1996, 115) noted it was Friedman who wrote Shultz’s 1972 speech to the IMF on international monetary reform. Other prominent US advisers or bureaucrats in the early 1970s advocating a shift to a neoliberal paradigm included William Simon, Thomas Willett and to a lesser extent Paul Volcker, who will appear later. These officials rejected the managed system central to Bretton Woods and promoted an open liberal international financial order with floating exchange rates and no capital controls. Given the prevailing economic circumstances, US neoliberal orthodoxy would provide an intellectual justification that helped the US administration shake off the constraints of the Bretton Woods system, and according to Helleiner (1996, 116), “the American neoliberals wanted to sacrifice stable exchange rates in order to preserve [US] policy autonomy and a liberal international financial system”. But whilst the US needed a free international system to allow it to have policy autonomy, the Europeans and Japanese sought stable exchange rates and capital controls to achieve their policy autonomy, this competitive need between the major economies was to impact international relations for much of the 1970s—exogenous forces that Australian policymakers were forced to navigate.

At the time of the breakdown of the Bretton Woods system it was believed by Friedman’s followers that floating exchange rates would provide the means for an automatic and continuous adjustment to the balance of payments (Helleiner 1996, 117). Thus avoiding periodic exchange rate changes and insulating against speculation, promoting investment and thereby allowing “national authorities greater latitude in the implementation of domestic monetary and fiscal policies...however, it became clear that these expectations were unfounded” (Banuri and Schor 1992, v-vii). Since floating rates developed some unsavoury characteristics, they facilitated short-term instability of the major currencies and those pegged to them such as the Australian dollar, and far from being an ‘automatic and continuous’ adjustment mechanism they created misalignment relative to economic fundamentals. Furthermore, floating rates “resulted in the emergence of new forms of constraint on the autonomy of national economic policymaking, since national policies...[became]...heavily dependent for their success on favourable changes in the international economy” (ibid.). So, instead of the automatic adjustment mechanism leading to an ‘equilibrium’ argued by the Friedmanites, floating or adjustable exchange rates empowered the commodification of currencies—an exogenous force that would undermine nation-state policy autonomy and force governments, including Australia in 1983, to re-think policy structures to re-establish and maintain policy autonomy.

Figure 4 – Growth of Eurodollar Market 1964-69



Source: Restrepo-Echavarria and Grittayaphong (2022)

Note: The figures (in 2022 dollars) are based on the dollar liabilities reported by the banks of the eight reporting European countries (Belgium, France, Germany, Italy, Netherlands, Sweden, Switzerland and the U.K.) vis-à-vis banks and nonbank residents outside their own area and vis-à-vis nonbank residents inside the reporting area.

However, Helleiner identified that a floating exchange rate regime was contentious amongst some neoliberals, primarily because of uncertainty a floating currency could generate and the potential political impact, “most central bankers feared that...[floating]...rates would prove volatile, disrupt trade patterns, and lead to widespread resource misallocation” (Helleiner 1996, 117). Central bankers, including the Federal Reserve, pushed for stricter controls on speculative capital and currency movements to stabilise floating exchange rates and preserve the existing liberal trading order, and by the late 1960s and early 1970s the Federal Reserve had successfully re-instituted measures to manage potentially destabilising capital flows. But the Federal Reserve “was alone, however, and its influence on US international monetary policy in this period was minimal” (ibid., 118). The failure of the Europeans, Japanese and Americans to agree on “a more closed financial order in the early 1970s marked an important turning point in the globalization of financial markets” (ibid., 121). By abandoning stable exchange rates and allowing the free-flow of capital and currency trading, international financial activity was greatly stimulated—for better or for worse. Referring to Bell’s earlier observation, international finance had finally ‘broken out’ (Bell 1997b, 101). The role of finance in the globalisation process is covered in 2.1.4.

Helleiner considered how neoliberal economic ideology managed to gain traction in the US at this time. Whilst the free-market international financial model played into the hands of those wishing to preserve both US hegemony and policy autonomy, there was another emerging dynamic that called for a new economic cure, since “growing inflation and slower growth in the early 1970s had produced increasing disillusionment with Keynesian economic strategies and New Deal regulatory policies” (Helleiner 1996, 119). A situation that was to be replicated in many other countries, including Australia. However, by the early 1970s the political-economic conditions that had brought about the Bretton Woods system had changed. First, the mechanisms of capital and exchange controls were becoming both politically unattractive in an increasingly open world and difficult to manage effectively given the phenomenal international growth of the financial markets. For example in the five years from 1964 to 1969 the Eurodollar market is estimated to have grown from US\$75 billion to US\$264 billion (2020 dollars), an increase of 252 percent (figure 4), and “As the US administration tried to control the outflow of dollars, multinational corporations, eager to find profitable usage of their surplus dollar balances, and banks, equally eager to accommodate demand, found ways to get around the controls” (Restrepo-Echavarria and Grittayaphong 2022). Second, the generation of American industrialists, politicians, intellectuals and bureaucrats that had supported the Bretton Woods system of the 1940s had largely moved on or been replaced. The institutional memory of a failing prewar international system was supplanted with a political-economic orthodoxy that appealed to the pecuniary interests of new international bankers and multinational business leaders that had gained influence over the US political parties and were supported within the bureaucracy by a new generation of public officials being the product of US

universities promoting neoliberal and rationalist economic ideology. Lastly, a symptom shared by many countries including Australia, was the decline in economic growth and private sector profitability, but wage growth expectations remained high and the share of national income was shifting resulting in reduced investment (Pagan 1987)—putting pressure on policy boundary lines and impacting perceived if not real policy autonomy.

What followed for the rest of the 1970s was a period of highly destabilising exchange rate movements of the major currencies, consequential inflationary pressures and balance of payments crises particularly for vulnerable economies that limited policy options, constrained boundary lines and restricted policy autonomy. Banuri and Schor (1992b, 2) described the post-Bretton Woods international financial system as:

[An] anarchic international monetary order, [which] appears to have undermined the possibilities for national autonomy. Individual countries are caught in a classic Prisoners' Dilemma with respect to increasing growth. The present system inhibits individual action, and instead yields financial speculation and global instability.

And Helleiner (1996, 123) identified that:

...exchange rates after 1973 tended to move erratically and often with little relation to fundamentals. As central bankers had predicted, the source of the trouble was speculative capital flows which responded not just to economic fundamentals but also to the sometimes volatile and irrational judgments of currency traders and asset holders.

The period of destabilising exogenous forces based on Helleiner's "volatile and irrational judgements" had well and truly begun following the end of the Bretton Woods system, with governments scrambling for new policy structures and instruments to reinstate the policy autonomy they had largely assumed in the previous two decades. Whilst, earlier in this paper, Bell described the 'breakout' of international banking and finance from its constraints, Keynes (1997, 161) had forewarned that all would not be 'rational' within the processes of this new system, with his reflection on the "animal spirits" of these market actors, being "a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by the quantitative probabilities." Helleiner (1996, 123) identified, "*vicious circles* of disequilibrium" afflicting countries pursuing expansionary policies, but requiring tough austerity programs to restore financial market confidence. This contrasts with the "*virtuous circles*" of the low inflation and economically conservative countries that were looked on favourably by the financial markets. Helleiner (1996, 124) referenced Henry Wallach, the American economist who had advised Eisenhower, "the new floating exchange rate environment had created a world in which 'the weak got weaker; the strong got stronger'". These sentiments would be echoed in 1983 as the Australian government wrestled with the decision to float the Australian dollar—would it narrow or expand policy autonomy? The Australian government, its advisors and bureaucrats did not know.

Notable examples of nation-states succumbing to the destructive speculative forces of the currency markets during this time were the UK in 1976, the US in 1978-79 and 1979-80, and France between 1981-1983 (Pagan 1987). The trigger for currency speculation against the pound was not related to economic fundamentals (echoes of Keynes here), which were improving, but related to the Labour government's expansionist philosophy when neoliberal austerity was becoming the policy preference for those with influence, primarily non-elected actors within Helleiner's *virtuous circles*. The UK's financial bailout was provided under a very different set of terms to those of the defunct Bretton Woods Agreement. These 'terms' undermined the UK's macroeconomic policy autonomy, being the IMF, US and Germany's price for supporting a funding package that included a program of strict monetary targets and spending cuts drawn straight from the neoliberal playbook. The French situation saw a new socialist government seeking to implement Keynesian expansionist policies, but within a context of high inflation and a growing external deficit. Inevitably, significant capital and currency speculation put the franc under prolonged and intolerable pressure which translated into a political crisis. What transpired became known as 'The Mitterrand U-Turn' as the government's expansionary fiscal policy was not only reversed, but "overnight" the French government adopted a "neoliberal focus on monetary discipline and market liberalization" (Helleiner 1996, 143). These events challenged the policy autonomy of two of the major global economies, shifted policy boundary lines that in Tinbergen's vernacular could not be defended by government, and proved the power of the 'market' and the ideology of creditor nations and the IMF to force *negatively reactive* policy responses from the British and French governments—events that did not go unrecognised in Australia and would shape the incoming Hawke government's thinking (Kelly 2008, 31).

In 1977 President Carter's administration developed unilateral programs of strong reflation to counter rising unemployment and low growth, which by 1978 led to an increasing external deficit and rising inflation. These reflationary policies were poorly implemented and led to a deep loss of confidence in both the US administration and the dollar, resulting in capital and currency outflows with the US dollar going into freefall. The choice facing Carter was between reinstating capital and currency controls to negate the speculative forces that undermined policy autonomy or go with the market and introduce measures that would appease market sentiment. In reality Carter had little choice, neoliberal ideology was becoming more pervasive within both political and economic circles in Washington, so he bowed to the market and in August 1979 presented Paul Volker as a totem, and "Volker did not disappoint" (Helleiner 1996, 133), with the Carter administration adapting to the new neoliberal paradigm and monetary targeting becoming the chief policy instrument to manage inflation (Mandelman and Meyer 2022).

Helleiner (1996, 133) believed, “The Volker stabilization program was a key turning point in American politics”. The US ‘structural’ power of the 1960s and early 1970s, based on the sheer size and attractiveness of its economy and the weaponised dollar enabled its policy autonomy, often at the expense of its trading partners. But the dollar crisis led to foreign governments and the markets attempting “to impose an external discipline on US economic policy” (Helleiner 1996, 133). In Helleiner’s view, the US traded some policy autonomy for an open global financial system, one that would continue to fund US deficits but now on open market terms. Strange (1990, 268), saw the Volker plan as one that restored confidence in the US administration, in the US as a market for investment, and confirmed the US at the heart of the global financial system. But critically, as Strange (1990) acknowledged, whilst the US may have ceded some power to the growing global financial markets, it had not ceded financial power to other nation-states. A political-economic strength that would not be available to Australia.

2.1.2 The development of postwar macroeconomics and policy strategy

In parallel with the international political-economic events considered above, that were driven largely by the US, there were other postwar intellectual changes that would impact Australia’s political-economy and policy autonomy.

Scholars of the immediate postwar period saw the four key macroeconomic policy objectives of full employment, price stability, external balance, and growth as being, initially at least, relatively independent or discrete programs of policy. To Beggs (2015, 41), they were regarded by contemporary postwar policymakers as a “list of desirables”, and not constituent parts of an integrated and interrelated policy framework. Bell (2004) concurred, arguing there is just *one* economic system, but in Australia as elsewhere in the democratic capitalist world, there are *multiple* political objectives, all of which are interrelated, interdependent and present differing economic management issues, priorities, and trade-offs. This was a challenge for overall policy effectiveness, as competing or conflicting policies could negate or weaken policy outcomes and undermine policy autonomy, since policy autonomy is predicated on successful policy outcomes (Tinbergen 1967).

Tinbergen (1967, vii), writing in the early 1950s, based his observations on his work at the Netherlands Central Planning Bureau and the Netherlands Labour Party. Tinbergen (ibid., 49) conceptualised that policy works as a system, one that has embedded responses and reactions to changes within that very system, responses that may be contradictory and even pull the whole ‘policy system’ in a different direction to that intended. Without this understanding by policymakers, Tinbergen foresaw that policy failures would be inevitable and highlighted the potential for policy development and implementation to miss the mark due to failures of

coordination and the inherent tensions between policy objectives. In addition, Tinbergen highlighted ‘transmission lag’, the time it takes for policy outcomes to be realised after implementation, and the extent to which this was truly appreciated by policymakers—as was proved in Australia with both the ‘transmission lag’ of the 1961 credit squeeze and at other times in the 1970s caused by conflicting policy goals and instruments, which is considered below.

This notion of wholistic policymaking was taken up by Beggs, in that objectives of full employment, price stability, external balance and growth were “elements in a structure which creates a unified ‘economic policy’ in which they are crystallised as semi-independent targets” (Beggs 2015, 41). Furthermore, Beggs (*ibid.*, 24) argued there was a lag between the development of macroeconomic thought and the practical development of macroeconomic policymaking, “the economic system more broadly was evolving relatively autonomously of policy”. He added, for macroeconomic policy to be transformed from pockets of theory to effective unified practice, required “growing consciousness that tensions between policy goals, originating from their structural relationships in the economic system, required a strategic unification of the arms of policy, as well as their extension into certain areas and strengthening in others” (*ibid.*, 41). Given this complexity, it would be easy for government to point at a failure of policy autonomy if policy strategy proved ineffective. As Beggs (2015, 17) noted of the postwar period, “The crisp formal [economic] models are still far from the messy uncertainty of diagnosis and action in the real-world economic bureaucracy.”

By 1965, in response to the “tangled mess [Australian] policy seemed to be in following the credit squeeze and recession of the early 1960s” (*ibid.*), a recession exacerbated by poor policy decision-making (Samuel 1965) and the worst since the 1930s, Australian Prime Minister Menzies commissioned the Committee of Economic Enquiry, chaired by James Vernon. One fundamental point in the committee’s final report was the recognition of the potential for conflict between three of the primary policy objectives of full employment, price stability and the external balance. A recognition out of Tinbergen’s playbook, acknowledging that this potential for conflict could undermine policy effectiveness and policy autonomy. Looking at this issue from the mid-2020s we have the benefit of over a half a century of collective academic thought and empirical analysis to understand the inherent conflict. But at the time, as politicians, bureaucrats, and economists—all of various ideological persuasions—wrestled with the various levers of policy, the Vernon committee’s insights were just one of many presented and were generally dismissed by the Australian Treasury (Whitwell 1986). It would take another thirty years to the mid-1990s for Australia’s economic managers to have a clearer sense of what was required to be in control within an *ever* changing international economic system.

2.1.3 Enter the neoliberals and rationalists

In this thesis I treat the rise of neoliberalism as an exogenous force that had a systemic impact on policy defence lines and policy autonomy. It was promoted from outside government and in due course it became embedded, by degree, within most OECD member administrations. From an Australian perspective, it permeated intellectual thought with non-elected actors in the bureaucracy and within a constituency of elected actors, some legislators, creating endogenous tensions over government objectives and policy strategy (Whitwell 1986; Pusey 1991; Millmow 2019). An outcome, applying Tinbergen, can be seen as a contraction of policy autonomy due to increased defence lines and conflicting boundary conditions—a cogent example being the Fraser government’s confused and conflicting policy strategy from the late 1970s to 1983, which is discussed later.

Notwithstanding the political-economic shock of the Second World War and the memories of the Great Depression, an ideological difference existed between those that supported the policies of an interventionist government and those that did not. The influence of the latter group would grow over the rest of the century as an exogenous force impacting policy autonomy in Australia and elsewhere.

...

In 1947, whilst the foundations of the GATT were being negotiated in Geneva, nearby in Vevey a group of economists, historians, philosophers, bankers, and industrialists were meeting to discuss the ideas and values of what was described as neoliberalism (Walker 2020). The conference was organised by Austrian school economists Friedrich Hayek and Ludwig von Mises in response to their experiences of authoritarian societies in Europe both prior to and during the Second World War, with an intent to shape the emerging new political-economic order. In essence, Hayek and von Mises were advocating freedom of the individual and individual thought, achieved by establishing a non-interventionist government. Their views, and those of their colleagues and acolytes, formed the basis of an ideology that, *inter alia*, translated into a return to a derivative of prewar neoclassical economics and a rejection of both the New Deal policy of Roosevelt and of Keynesian interventionism. Their organisation, the Mount Pelerin Society (MPS), was well funded by those with a vested interest in a free global market (Walker 2020). Soon, with the advocacy of the MPS, the ideology became normalised through the establishment of influential think-tanks in key international centres, university departments, the media and the Bank of International Settlements, the latter described by Helleiner (1996, 198-201) as, “an epistemic transnational community” for central banks.

At about the same time Hayek and von Mises were establishing their ‘movement’, other changes were impacting economics as a profession. Pusey (1991, 171), quoting Butlin, noted that in Australia after 1947:

...economics became much more technical and specialised – one might say, summarily, Americanised and much more attuned to rational maximising behaviour. Increasingly this training seemed to prefer efficiency to equity and humanity. In this new and tougher guise, some 50,000 graduates emerged between 1947 and 1986.

Millmow (2019, 171) believed that the 1960s was also a turning point for Australian economists who began gravitating to the US rather than the UK to complete their education, so that by the 1970s, “the leadership of Australasian economics departments began to place a premium on theoretical work rather than policy analysis and applied economics” (ibid., 196). The standard texts of Samuelson and Lipsey, the backbone of any budding economist, were “set in a positivist theoretical and methodological framework. Gone were the days of a broad and philosophically unified education” now we had a specialisation that “almost invariably excluded any broadening study of philosophy, sociology or the history of ideas” (Pusey 1991, 172). And in due course these ‘standard texts’ were to be adapted for the Australian economic context further reinforcing the rational over the analytical or applied positioning of the discipline (Millmow 2019, 159–62). The irredeemable ‘scientific’ logic of this new form of neoclassical economics and the neoliberal ideology of the Hayek-von Mises movement were symbiotic bedfellows. The former providing the rationalist logic for the latter. Pusey (1991, 154) described the intellectual positioning of these new ‘symbiotic bedfellows’ as follows:

Those who drive this process of rationalisation believe in it and deploy it very powerfully as an evaluating framework that throws a difficult onus of justification on anyone who seeks to oppose them with defences premised on social needs or on values such as equity, compassion, common sense, wisdom, courage, and integrity.

Behaviour that Pusey asserted became prevalent in the Australian bureaucracy from the late 1960s and impacted the relationship with government and as a consequence, applying Tinbergen, how policy boundary lines were defended and boundary conditions set—both impacting the policy autonomy of government.

But whilst neoclassicism provided the rationalist economic logic, neoliberal ideology took it further to the political ‘right’. For example, neoclassical economists acknowledged the need for government to actively manage the economy to maintain free markets, by *inter alia* regulating monopoly power and market behaviour. Whereas neoliberals did not see a need for this, a ‘free-market’ should be exactly that, *free*, with some extreme neoliberals promoting ‘free-money’ by not seeing the need for central banks or monetary policy. Others saw government’s economic responsibility limited to maintaining the value of money, namely keeping inflation low (Pusey

1991). Many of these positions remain extant today and form boundary conditions and defence lines, where the ideology behind a policy has consequences for policy autonomy.

However, from the Second World War to the early 1970s, before the ascendancy of neoliberal-monetarism, a Keynesian-neoclassical synthesis dominated the formation of macroeconomic thinking in most advanced capitalist nations. It was manifest as a blend of Keynesian humanism with neoclassical theory, a hybrid model:

[A] framework in which Keynes' insights were submerged within the neoclassical schema, something which could only be achieved by ignoring or misunderstanding, or pointing to logical flaws in, the basis of Keynes' fundamentally different vision of the economic system. (Whitwell 1986, 169)

Within this synthesis arose the:

...mathematisation of economics...and a pervasive desire in the profession to ensure that economics attained something of the status and exactness of the natural sciences by making it precise, objective, rigorously theoretical and amenable to mathematical insights. (ibid.)

A notable example of the synthesis is the melding of Keynes' ideas with Marshallian orthodoxy into J. R. Hicks' IS-LM model which became a standard didactic device, but one focused too much on equilibrium not on interpretation (Minsky 2008, chap. 2)—resulting in a methodological boundary line (a resistance) that had not existed before. This became the enduring difference between the neoclassicists and the Keynesians—was the economy self-correcting by nature? The former believed in an ultimate equilibrium, the latter did not. The 'synthesis' outcome was one where Keynesian policies hastened equilibrium and natural (neoclassical) forces restored it (Whitwell 1986, 171–72). The concept of an 'equilibrium' for the greater good would later prove to be an effective weapon for the neoliberal movement in their argument for non-interventionist government. An argument that would impact policy autonomy as governments grappled with increasingly restrictive neoliberal ideology to find policy options that would meet political objectives.

During the 1950s and 1960s the neoliberal movement grew in momentum, most notably through the establishment of The Institute of Economic Affairs in London, and at the University of Chicago with Milton Friedman, who was also a MPS member becoming its President in 1970-72. Friedman's development of monetarism and focus on supply-side economics became integral to neoliberal ideology. All that was needed was the opportunity to deploy monetarism and gain political backing for neoliberal policies. This was soon to come and impact policy boundary lines as they shifted in response to this theoretical paradigm. Ton Notermans (1993, 138) described what happened next:

The regime transformation started in 1974 with the conversion of the Bundesbank to monetary targeting. It reached a peak during the years 1979-82 with the switch of the Federal Reserve to monetarism, the electoral victory of the British Conservatives, and the demise of half a dozen Social Democratic (coalition) governments.

These Social Democratic governments included those of Belgium, Germany, Netherlands and Denmark, and with the social democratic parties of New Zealand and France making policy U-turns. The transition from a 'Keynesian-neoclassical synthesis' to a theoretical 'neoliberal-monetarism' dominant paradigm would create a period of piecemeal or *ad hoc* policy choices in the 1970s, far from Tinbergen's structure of interlocking and coordinated policy portfolios (Del Rio and Howlett 2013; Bell 2004, 45). One outcome was a reduction in policy effectiveness and apparent loss of policy autonomy in the face of relentless stagflation.

In Australia, the transition of economic thought within the political leadership and bureaucratic elite is well documented by Pusey (1991), Whitwell (1986), Millmow (2019) and Bell (2004; 1997b). In the 1950s and 1960s, a new generation of trained economists replaced retiring or reallocated 'generalist' bureaucrats, so changing the power and influence of the Treasury, and in due course the Reserve Bank. As Whitwell (1986, 24) reflected, "throughout the postwar period...the Treasury has enjoyed an authoritative position in the field of economic advice...the department has been a major force since the war in shaping governmental attitudes and policy decisions." A 'trusted' relationship that provided the ready platform, largely unchallenged, for the new neoliberal or rationalist ideologies within the administration that equated to new defence lines.

During the 1960s the Treasury became more focused on economic efficiency as the driver for continued growth and was demonstrating a more dogmatic position both in terms of its role within the administration, and advice to government. The Treasury's response to the recommendations of the Vernon Committee (formally The Committee of Economic Enquiry) in 1965 is telling. In discrediting the report of the committee, the Treasury poured scorn on the role of government in economic planning arguing, in Whitwell's (1986, 167) words, "it was the aggregate views of individuals making up society, not the government, which alone could and should determine just what the rate of growth and composition of investment should be. There was no place here for government fiat." Hardly the position expected from an impartial public service.

By the late 1960s, Treasury statements on efficient resource allocation, the integrity of prices and the role of the market, and its "depiction of the Australian economy as being inherently adaptable and flexible...indicated a growing attachment to neoclassical concerns and viewpoints" and a shift away from the Keynesian-neoclassical synthesis (Whitwell 1986, 169). The 1970s "was an age in which the Keynesian consensus and pluralist approach of the post-war years was replaced by a

more inflexible neoclassical paradigm” (Millmow 2019, 198). By the 1980s neoliberal ideology overlaid itself on the infrastructure of economic policymaking, the Australian version of this new ideology became known as economic rationalism. As an exogenous force, it was to influence policymaking and impact policy boundary lines for the rest of the century. But a further influence on Australian policy autonomy was starting to emerge in the 1960s, that of globalisation.

2.1.4 The globalisation context

“The 1980s saw the globalisation of the Australian economy...”
Paul Kelly (2000, 222)

In this section I consider the broader issues of globalisation on nation-state policy autonomy. Whilst I have discussed some of the financial forces earlier, the enabling power of globalised financial markets on other globalising forces, such as the growth in foreign direct investment and corporate acquisitions adds to the potency of exogenous forces on domestic policy autonomy. From an Australian context the globalising forces discussed below demonstrate how the Australian economy became integrated into the global economic system from its protected ‘settler-state’ origins, and the consequential impact on boundary conditions, defence lines and policy autonomy.

...

What is meant by globalisation and what impact has it had on policy autonomy? According to Bryan and Rafferty (1999, 1), “Understanding globalisation is both a conceptual and an empirical question.” Empirically, the restoration of stable and reliable international trade was a key objective of the Bretton Woods Agreement, with trade’s consequential symbiotic connectivity being an integral part of reconstruction after the war, as was international banking to facilitate trade and foreign investment (Eichengreen 2008, chap. 2). So, what is different about globalisation in the context of the late twentieth century? Bryan and Rafferty (1999) argued it is a *conceptual* differentiation, in that globalisation is a *process of integration* that undermines the conventional notion of a nation-state being a discreet economic unit—which has significant implications for policy autonomy. With the crux of this new integration being: the growth and increasing sophistication of financial markets beyond the ‘real economy’; the transfer of industrial production between nations; the ongoing ideological spread of neoliberalism; and, the convergence of economic policy internationally, with a consequential reduction of nation-state economic sovereignty (Bell 1997a; Strange 2000; Mikler 2012). Bryan and Rafferty (1999, xviii) believed the globalising *process of integration*:

...can best be described as a discipline on economic processes in all localities, or as the imposition of a global system of calculation to which all economic decisions are subjected. The discipline comes in part from trade and investment, but more importantly from international financial integration.

However, Quiggin (1999, 246) provided a much narrower definition believing ‘globalisation’ a misnomer, since it merely “reflects the growth of international capital markets.”

Bell (1997a, 345) regarded ‘globalisation’ as, “too generalist a term”, writing in the last decade of the 20th century, his preferred definition for the phenomenon was “transnationalism” not “globalism”, and which applied only to a small group of advanced capitalist countries (*ibid.*, 347). Bell divided transnationalism into two distinct areas of impact. First, the financial flows within the international currency and credit markets. Secondly, ‘real’ economic activity, such as international trade, cross-border investment, and offshore-production. As far as nation-state policy autonomy is concerned, Bell saw the structural power of global currency and credit as the most influential financial markets. As a consequence he did not subscribe to the notion of ‘global’ capitalism supplanting national capitalism, but “credit and currency markets...emerged as major new forces in the world economy” (*ibid.*, 352), forces that would impact the Hawke government’s policy options in 1983. The contemporary roots of Bell’s financial market transnationalism go back to the establishment of the Eurodollar market in the 1950s that side-stepped the Bretton Woods system and fuelled the eventual growth of new financial products in new or re-established financial centres. Quiggin (1999, 247), identified a specific feature of contemporary financial globalisation as, “the greatly increased volume of *short-term* financial transactions relative to ‘real’ flows of goods, services and long-term investment” (*italics added*)—a further dynamic that would impact the Hawke government in 1983. In addition, Bryan and Rafferty (1999, xviii) identified:

Finance has some national characteristics, but the ease and speed with which funds can be transferred internationally means that there can be no notion of a discrete national capital market. And as finance is integral to all facets of economic activity, the globalisation of finance exerts a pervasive impact in generating global integration.

In terms of global or cross-border connectivity that facilitates ‘globalisation’ from an Australian context, Bryan and Rafferty (1999, 41) did not just consider government as an agent of transmission, they saw cross-border corporate activity as pivotal. Since, “what is the Australian economy other than a composite of corporate activity that is by and large international...[and] when we talk of Australian economic activity, we are adding up these individual acts and giving them a national identity” (*ibid.*). As a consequence, quoting Clough and Wheelwright from 1982, “key decisions about the Australian economy are being made in the boardrooms of the world’s largest corporations, in New York, London and Tokyo, and that these decisions are made in the interests of the corporations themselves, not ‘Australia’s’” (*ibid.*, 60). Whilst corporate decisions being made offshore was not a new phenomenon, the scale of transnational or multinational corporate activity from the late 1970s onwards was both unprecedented and set to grow (UNCTAD 1994, 23–24). Critically, Bryan and Rafferty (1999, 53) no longer identified nation-

states as economic units, “nations are not spontaneously formed units of accumulation—they are political units, and economic processes are not simply delineated by political spaces”. Thus, a nation-state is a “unit of policy rather than a unit of factor endowments” (ibid., 70). Quiggin (1999, 241) concluded, “the world economy now transcends national boundaries in a way that reduces or eliminates the scope for national governments to influence economic outcomes.” A position accepted by Bryan and Rafferty (1999, 220), “National policies can promote economic activity, but they cannot secure national economic outcomes”—a fundamental point when assessing policy effectiveness relative to policy autonomy, given the former validates the latter. However, Bryan and Rafferty (ibid., 218) referencing Boyer and Drache, acknowledged that, “Globalisation places constraints on national policy, but still leaves significant space for national policy movement”, and the achievement of policy autonomy. A position shared by many scholars, who acknowledge that national governments facilitate their ‘membership’ of this world system by recognising a trade-off, as Strange (2000, 85) posited, in that “adapting may require a limitation of autonomy as the price of survival.”

Based on the various forces discussed above, I contend that globalisation transitioned through three phases: **Firstly**, pre-1971, during the period of fixed exchange rates under Bretton Woods and regulated cross-border financial flows. This period can be characterised by postwar reconstruction and growth in both trade and the rising destabilising potentiality of the financial markets that manifested in selective, as opposed to widespread, pockets of intense activity through the development of the Eurodollar market.

In addition to the raw activity of financial markets that were about to become more sophisticated and pervasive, the roots of neoliberal ideology were developing facilitated by the IMF, World Bank, BIS and OECD as they fostered their ‘rational’ notion of ‘good housekeeping’ by government, with a consequential impact on policy defence lines.

Secondly, with the end of the Bretton Woods system in the early 1970s, floating of the major currencies (excluding the Australian dollar) and phased deregulation of many national financial markets, globalisation transitioned. This was characterised by the substantial growth in financial markets and of new financial products, notably currency and interest rate futures, options and swaps with a commensurate reduction in the effective risks and costs of international finance (Helleiner 1996, 6–7). Financial market expansion provided the means for international corporate, or transnational, expansion and the consequential cross-border homogenisation of private sector attitudes and expectations.

The third phase of globalisation, which Strange (2000) saw as unprecedented in its dynamics, evolved from the 1980s at different times for different countries and could “be seen not as an issue of growing interaction between national economies, but as one of integration of global capitalism” (Bryan and Rafferty 1999, 23). Bryan and Rafferty (*ibid.*, 17) saw this manifest by the way OECD countries started to move as one, where economic policy choices were becoming simplified and effectively homogenised across the advanced capitalist economies. Monetary policy instruments, from being a complex menu of options, would in time become narrowed to a primary focus on interest rate setting under the auspices of a central bank. Fiscal policy and budgetary objectives became subject to the judgement of, *inter alia*, the OECD itself, the IMF and the international credit rating agencies who would punish a government if the budgetary goals were deemed unreasonable relative to their political-economic value-set, a value-set that was ostensibly neoliberal in orientation (Pusey 2018). One manifestation of this new paradigm, from the early 1980s, was the transition of policies from nationalisation to privatisation and the commensurate rise in foreign direct investment. These forces increased during the 1980s and became more explicit as the century progressed, impacting policy agendas as economies switched from typically nation-state owned monopolies, such as utilities and public-transport, to becoming ‘market’ owned under some form of sector regulation to limit private sector monopolistic power—with varying degrees of effectiveness, and deep consequences for policy autonomy, such as energy policy and infrastructure investment.

The continued growth and product sophistication of the international financial markets, the increasing stability of many nation-state economies following the turbulence of the 1970s, and the increased availability of foreign direct investment in deregulated economies, facilitated the rise of the *transnational* corporation (Bell 1997b; Bryan and Rafferty 1999). A term distinct from ‘multinational’ where the corporation had a highly centralised management structure usually emanating from its place of origin. Transnational corporations were generally managerially decentralised with *location* forming a key element of broader production, investment and tax strategy. As the century progressed transnational corporation mergers and acquisitions increased at pace, funded by the growth in the international capital markets, leading to a homogenising of corporate management philosophy (e.g., through business schools) and a trend towards global oligopolies and monopolies (e.g., big-pharma, big-tech, big-food, big-energy, etc.), and global services and consulting companies. This became manifest in what Porter (1998) identified as a strategic switch, at the nation-state level, from the economics of *comparative advantage* (with a focus on national factor endowments) to the economics of *competitive advantage* (with a focus on national productivity). Although the effectiveness of this ‘focus on nation productivity’ was later questioned by Quiggin (2001). This switch from comparative to competitive advantage, played to rationalist

ideology now embedded in the Australian Treasury (Pusey 1991), and would have a transformative impact on policy boundary lines relative to maintaining policy autonomy, an issue that would contribute to Paul Keating's 'banana republic' reference in 1986.

The globalising *process of integration*, to use Bryan and Rafferty's term, impacted the political-economy of advanced capitalist nation-states as they switched from exploiting their comparative advantage of, say their natural resources, to one of competitive advantage based on productivity applied to other factors outside of their factor endowments—most notably labour, and other inputs in the production process, such as technology. So, by the 1980s, we entered the age of the management consultant, unforgiving cost-benefit analysis and strict economic rationalism (Pusey 2018). However, as Porter (1998, 6) acknowledged, “competitive advantage has recognised that there is more to being competitive in international markets than specialising in line with [national] factor costs,” and Bryan and Rafferty (1999, 70) identified that, “The advocates of competitive advantage argue that the (alleged) global gains come not from national specialisation but from intense global competition to innovate and enhance productivity”. However, Bryan and Rafferty (*ibid.*, 68) contend that, facilitated by the “international mobility of capital”, *location* became “a variable of corporate strategy... Hence there is no notion of a competitive nation, only competitive companies”—with its implication for policy effectiveness.

Bell (1997b, 353) and Helleiner (1996) warned not to underestimate the role of the nation-state and that an overemphasis of exogenous forces would detract both from a nation-state's active role as a facilitator between the national and global economy, and as a stabilising hand hovering over the financial markets (e.g., lender of last resort). Nevertheless, from the mid-1970s this paradigm of competitive advantage, within a globalised or transnational economic system, had already gained traction within the Australian policymaking elite, notably the Treasury and other key political advisors, and became ideologically embedded by the 1980s—despite the lack of empirical support (Whitwell 1986; Pusey 1991; Bell 1997b; Quiggin 1999).

...

As a consequence of the postwar foreign investment into Australia, the extent of foreign ownership of industry—which became an issue for the Gorton and Whitlam governments—and combined with the country's inherent dependency on trade, ensured its inevitable susceptibility to globalising forces. Intellectually, many leaders be they politicians, bureaucrats or business leaders were educated and trained in the western northern hemisphere, so membership of the globalising and culturally similar international economic community was unlikely to be anathema or resisted, for many it was a natural progression. The final step was full financial integration into the global community, which is considered in Part 3—the float, and currency market and banking

deregulation, and the acceptance of the Hawke government, and notably Treasurer Keating, by the international financial community (Ellis 2011).

2.2 Endogenous Actions and Tensions

2.2.1 Australia's postwar political-economic context

“As Australia emerged from World War 2 its inherited economic strategy had been built around imperial preference, and population and capital flows from Britain. But Australia's dependence on commodity exports never provided a sufficient base for the increased population, while large fluctuations in commodity prices made the economy prone to instability. Over time, therefore, that strategy sought greater security through a broader economic base that relied less on commodity exports.”

Michael Keating (2015, 438)

In 1942, Treasurer Ben Chifley, had reiterated that the overarching *proactive* political-economic policy for Australia was to be a continuation of the development of the country, with expanded production and increased population (Keating 2015). In 1945 the Labor government's pursuit of full employment as a political and social imperative following the war became enshrined in a White Paper—it became a boundary line. However, whilst full employment was high on the political agenda, the fear of inflation loomed large because of Australia's dependence on trade. Many in government still recalled the economic events following the end of the First World War—the inflationary boom followed by the recessionary bust, as investment and demand first surged then the fickle financial markets sucked out liquidity. There was a fear of repetition, heightened by Australia's reliance on commodity exports, the risk of unstable commodity prices, and the economy's vulnerability to balance of payments deficits. These fears cast a shadow over policymaking immediately after the war, and led to the government's initial reticence towards the construct and obligations of the proposed Bretton Woods Agreement that would impact policy autonomy (Donald J. Markwell 2000).

In Whitwell's (1986, 3) view postwar Australian governments, “abandoned pre-war norms” and accepted responsibility for managing the economy as, “Keynesian theory and wartime experience had shown that this was both necessary and possible.” The prewar and pre-Keynesian approach had been characterised by “piece-meal rather than integrated, microeconomic rather than macroeconomic” policy (Whitwell 1986, 57). But as Beggs (2015, 73) acknowledged, “Australia did not come out of the war with Keynesian policy instruments already calibrated and deployed.” Policies had to be developed within the ‘rules of the game’ as McKinnon (1993) described them, such as the obligations to the Bretton Woods Agreement (*a systemic exogenous force*) and national welfare commitments (*economic defence lines*), as constrained by the unique characteristics of the national economy, and acceptance by the different social and political stakeholder groups (*political*

defence lines). The development of policy instruments were influenced also by the experience, expertise and ideology of the politicians and bureaucrats tasked with their creation (Whitwell 1986; Pusey 1991). However, what was new in the 1950s was the coordination of macroeconomic policy across transformed government agencies “guided by models of the whole economic system” so that agencies, such as Treasury, became macroeconomic strategists rather than mere housekeepers (Beggs 2021, 130). So, postwar policymaking in “The Long 1950s”, as Beggs describes it, became a turbulent balancing act between the goals of full employment and price stability, whilst controlling the balance of payments and maintaining the development of the economy (Beggs 2015, pt. 1). But at this time, as noted above, the interrelationship of policy instruments to these goals was poorly understood, an issue that would come home to bite with the balance of payments crisis of 1961-62 and in the 1970s as the government grappled with a whole new economic paradigm, that of stagflation (Bell 1997b, chap. 6).

Nevertheless, Australia mirrored the underlying trends of the advanced capitalist world from the 1950s to the early 1980s—the “long postwar boom followed by stagflation, the profit squeeze of the 1970s and, successive waves of financial innovation and the monetarist experiment” (Beggs 2015, 1). However, Western *et al* (2007, 402–3), viewed postwar Australian public policy as becoming, “internationally distinctive” during the late 1950s due to the combination of high levels of economic regulation with limited government ownership—a measure of the relative policy autonomy of the time. They argued:

Distinctive elements were tariff policy and import controls to protect domestic manufacturing, centralized wage determination according to cost of living and ‘relative wage justice’ principles, compulsory conciliation and arbitration of industrial disputes, and regulated immigration to minimise unemployment and protect wages. The result was a set of interlocking labour market and public policy institutions. (ibid.)

The centralised wage bargaining system did set Australia apart from other nations, Castles (1993, 7–8) described it as, “[a broad] strategy of ‘domestic defence’”. Castles also identified the social policy objectives that were distinctly Australian, to protect minimum living standards, “[later to be] identified by [the] newly elected Labor governments as the primary cause of weak competitiveness in world markets and of persistently poor growth” (ibid., 8). From a policy autonomy perspective, the 1950s and 1960s demonstrated degrees of policymaking freedom achieved in a climate of generous policy autonomy. Whilst these postwar policies were relatively *politically* effective (as will be considered below) they came at a future *economic* cost (Horne 1988; Kelly 2008). A cost that Paul Keating later referenced in his “banana republic” comparison (Colebatch 2006).

2.2.2 The postwar political-economic transition

“Governments in Australia have always seen themselves at the centre of development.”

John K. Wilson (2015, 350)

In the context of this thesis, I divide the period from the implementation of the Bretton Woods system to the mid-1980s into three phases. The first phase to 1970 witnessed some turbulence in the early 1950s as the economy was brought under control, leading to strong consistent growth, low unemployment, low inflation, with a backdrop of relative political and bureaucratic consistency. Whilst this phase represented a focus on “national development” (Keating 2015, 439) it is seen also by others as a missed opportunity to sustainably broaden Australia’s economic base off a buoyant economy (Kelly 2008, 14). The second phase, from the early 1970s, was one of declining growth, rising unemployment, and rising inflation—which morphed into the period of stagflation, mirrored by political instability and bureaucratic change. It was also characterised by a narrowing of policy options that constrained policy autonomy. The third phase witnessed the re-setting of boundary lines allowing increased policy autonomy that facilitated the reforms of the Hawke government and a fundamental shift in the Australian political-economic landscape. These phases are considered in more detail below from the differing and overlapping contexts of the economy, the government, and the bureaucracy to illustrate the change in policy autonomy over this time.

The first phase – from Bretton Woods to 1970

“The relative economic stability and political coherence of the 1945-1970 capitalist world order was deceptive...since cumulative forces were serving to unravel its political consensus and economic integrity.”

Stephen Gill (1992, 275)

I argue that the first phase represents a period of political-economic complacency. The policy autonomy enjoyed by the Menzies’ Coalition government was largely established by the preceding Labor government of Chifley. Whilst there were periods of economic turbulence in the 1950s and early 1960s, these were relatively quickly resolved on the back of the global boom and Australia’s strong and stable economic performance despite some poor policy execution. The strong and consistent economic performance in the 1960s, a ‘golden age’, lulled many policymakers into a false sense of being in control. Whereas in reality exogenous pressures were building that would start to constrict boundary lines and ultimately policy autonomy and limit the government’s future strategy options until the early 1980s.

Economic Context

For Australia, as a small trading nation operating under a fixed exchange rate, a key factor to growth and stability is the level of economic activity of its trading partners—a boundary line that impacts ultimate policy autonomy. If growth is strong, policy can focus on political-economic priorities associated with growth (Pagan 1987, 128–29). But growth derived from trade alone is a ‘two-edged sword’, where “the monetary consequences can easily lead to externally generated inflation, and demands are placed upon the authorities to manage the exchange rate wisely” (ibid.). The 1950-51 wool boom and resulting inflation was a salutary lesson of this ‘two-edged sword,’ that tested the administration’s capacity to effectively manage the economy in a period of strong underlying growth. Australia did ride the wave of the global long-boom, but when it burst in the early-1970s policymakers were found wanting.

The origins of some of the core tenets of this period can be traced back to earlier in the century when “a pattern of trade protection and wage intervention was established” (Wilson 2015, 349). Following the First World War, Wilson (ibid.) noted that, “tariff protection and wage fixing became inherently entwined” the two working in combination to manage wage rises and keep Australian industry competitive. The Second World War provided the federal government with the justification to take control of “all income and company tax” (ibid.). Now with absolute fiscal control the Commonwealth government had currency to back its postwar strategy in the context of the Bretton Woods system. Wilson (ibid.) reflected:

Perhaps what was more striking, however, was the success of wartime planning and the interventions in the post-war years. Coinciding with a global boom, the federal government must have felt assured that its model of high intervention – in labour markets, in product-marketing monopolies (particularly rural), in trade, in picking industries as ‘winners’ (e.g., the automotive sector) – was indeed the reason behind the current and future success of the nation.

This postwar *virtuous circle*, as Helleiner (1996, 123) may have described it, made government “increasingly confident that *it* should be the bedrock of deciding how and what economic activity should be occurring. This was to largely set the scene for public policy until the last 20 years of the century” (Wilson 2015, 350) (italics added). During this time, the early postwar period, Australian economic management was described by Wanna (1994, 228) as, “a combination of expansionary economics, demand management and regulatory protection. Indeed, in many ways the Australian state built its own form of ‘bastard Keynesianism’ based on undirected state intervention”.

Between them, the Chifley (1945-49) and Menzies (1950-1966) governments spanned some twenty plus years of ‘nation-building’ with the 1960s seen as a “golden age” (Stevens 1992) of income growth and full employment. This period was characterised by price stability, protective tariffs and

quotas, wages and incomes policies, and politically bi-partisan welfare-state policies. Beggs (2015, 38) noted, the 1950s and 1960s was a boom period for most advanced capitalist economies, Australian included. But it was not all plain sailing, the fear had been how to keep prices under control as the boom gained momentum, so inflation became the active focus for economic management during this period (Keating 1987; Beggs 2015). The balance of payments had been a concern to policymakers early on, but the performance of the economy helped mitigate this issue. The fixed exchange rate system meant that balance of payments deficits could be sustained only for as long as foreign currency reserves, held by the RBA, lasted and international trade either supported or depleted those reserves, or foreign sourced debt was accessed by government. During the 1950s and 1960s the relatively constant flow of inbound investment capital largely kept the external balance under control, with destabilising speculative capital and currency flows yet to be a significant issue for Australian economic managers—that would occur later.

The Chifley government had established an effective sense of policy autonomy during its tenure that provided the subsequent Menzies government with significant policy scope to continue ‘nation-building’. As a consequence, the 1950s and 1960s can be seen as a time of relatively strong macroeconomic policy autonomy for Australia. Not to say that there were not significant exogenous forces at play, notably in the 1950s, such as the wool-boom and resulting inflation, wage pressure, balance of payments deficits and resistance from the retail banks over the growing role of the RBA (Beggs 2015, pt. 1). However, the policy induced recessions following the wool-boom inflation of 1952 and credit crunch of 1960, are examples of policy failure. Although recovery (as measured by unemployment and inflation) was relatively quick. Keating (2015, 73) argued, “This suggests that markets were much more responsive to demand management than later when inflationary expectations became more entrenched and pressures for rising real incomes were more intense”—a potent example of how exogenous forces changed over time constricting boundary lines and policy autonomy.

By the early 1960s macroeconomic policy was operating within boundaries lines that were generous and stable, being supported by consistent growth, low unemployment, and generally effective price stabilisation. Fundamental to this was the Bretton Woods system of fixed exchange rates, and related capital and currency controls, with the Australian dollar pegged to the US dollar from 1949 to 1971 at the constant rate of AUS\$1 to US\$ 1.12 (figure 5). Instead of being a constraint on policy, the Bretton Woods system provided a level of certainty that allowed government to focus on other policy instruments. In Banuri and Schor’s (1992b, 2) view:

Whatever its shortcomings, this system had provided a certain level of stability. Although based on the hegemony of the USA, its foundation was *nationally based macro-economic policy*.

In essence, it was a system of national regulation, made viable by a stable set of international linkages. (*italics added*)

The policy instruments deployed during these two decades were relatively limited (Keating 2015, 443). The principal monetary instrument was the retail banking statutory reserve deposit (SRD) held by the Reserve Bank, effectively controlling the quantity of credit in the market. With no effective money-market in 1950s Australia there was no scope for market operations and interest rate management could only be prescriptive. But even by the 1960s when a money-market was forming, Michael Keating noted the reluctance by government to sanction market instruments (interest rates and exchange rates), as was the case in the US and Britain, to address the gap between demand and supply. Keating saw this as a general distrust of the markets by the Coalition government that had a driving motive to allow ‘cheap money’ to fund national development. Also, Keating noted:

...with the partial exception of the two episodes in 1952-53 and 1960-61, there was a reluctance to use fiscal policy. In practice, fiscal policy proved to be much less flexible than was anticipated in the 1945 White Paper on Full Employment, reflecting the unwillingness by government to vary both taxation and expenditure. (*ibid.*)

Being a recognition of Tinbergen’s political and social defence lines, when more socially and politically palatable and less invasive policy options were available to government in a buoyant economy.

Paul Keating highlighted an issue with policy execution in this period. Both the government and Treasury “were disinclined to take action to restrain overheating until the last possible moment, which led to accusations that the economic strategy over these years was” not just slow to react but also, “excessively stop-go” (Keating 1987, 444). This observation reinforces Tinbergen’s (1967) position that policy cannot just be executed it must be effective and the transmission lag is a key part of this. Ineffective policy implementation can impact perceptions of policy autonomy allowing the cause of failure to be blamed on exogenous forces not on poor endogenous actions.

Michael Keating believed there was some degree of trade-off in the 1950s and early 1960s between inflation and unemployment, which “greatly simplified the task of stabilisation policy” (Keating 2015, 444). However, Beggs (2021, 154) asserted many economists at the time did not believe in a stable and predictable relationship between unemployment and wage inflation, and furthermore the notion of a policy ‘trade-off’ did not appeal for political reasons—as full employment remained a stated bi-partisan political priority, a *defence line*. The solution was continuing with wages policy, which was seen as far more focussed than some of the broader, blunter, and politically unacceptable policy instrument options. Whilst wages policy was problematic to deploy effectively,

its re-casting would become an integral part of economic management in 1983 under the Hawke government with the Accord which re-set boundary lines and the scope of policy autonomy.

Applying the thesis-lens, this period was characterised by the underlying global ‘long-boom’ which, despite pockets of turbulence within the Australian economy in the 1950s and early 1960s, did not create intense stress on boundary lines, and even poor policy was mitigated by a consistent and strong economy. Consequently, and broadly speaking, policy autonomy was not an issue for a Coalition government that was riding the strong growth and low unemployment wave as demonstrated by the duration of their tenure in power, and the Coalition found no reason to deploy more challenging policies aimed at longer-term economic development that would have truly tested political and economic boundary lines.

Government and Bureaucracy Context

Following the end of the Second World War, the Australian government and its bureaucracy came to terms with what amounted to its new role of having responsibility for the economy, and how that would be achieved (Bell 2004, 13), with political and bureaucratic continuity over this period contributing to relative stability and consistency. From 1945 to 1949 leadership rested with Chifley (Labor), then with Menzies (Coalition) for sixteen years to 1966. In Switzer’s (2024, 58–59) view, the interventionist Chifley government placed “an emboldened welfare state, a development ethos, a larger immigration intake, the imposition of Keynesian demand management at the Treasury, and full employment...at the heart of government policy.” Policies that significantly extended policy boundary lines. However, Switzer (ibid.) identified a contradiction within the subsequent Coalition government under Menzies:

[That] gave voice to the classical liberal philosophy of limited government based on competition and the widest freedom of individual choice. But he [Menzies] never set out to destroy the post-war economic policy consensus of high tariffs, centralised wage fixing and financial regulation. Some of his critics at the time lamented a fundamental mismatch between his rhetoric and the record.

Or was this just shrewd politics by Menzies, who recognised Tinbergen’s defence lines and so chose not to trigger a political reaction by reversing some of the core policies of Chifley’s interventionist government at a time of strong economic performance. Innovative policy would not challenge boundary lines until the Whitlam government of 1972-1975, and the Hawke government from 1983.

As argued earlier, stabilising continuity was provided by the senior political leadership and bureaucracy, appendix A. Over fifteen years under Menzies there were only two Treasurers, Fadden (1950-1958) and Holt (1959-1965), the Australian Treasury was headed by Roland Wilson

(the first economist to hold this position) from 1951 to 1966, the RBA was led by H.C. Coombs for almost twenty years from 1949 to 1968, and between 1946-1972 there were only four heads of the Prime Minister's office. Whitwell (1986, 145) acknowledged the "noteworthy continuity" of this period of leadership stability. But after Menzies retired in January 1966, the relative political stability of the previous fifteen years was replaced with six politically turbulent years to 1972, as the three new Coalition leaders after Holt's death (McEwen, Gorton, and McMahon), consumed by internal party politics, wrestled more with defining their style and ensuring their succession in the face of a weakening economy and the changing global financial system. Whitwell (1986, 178) reflected, "If 1968–73 witnessed growing economic disorder, it saw also, by postwar Australian standards, a degree of political instability." Instability that mirrored similar instabilities internationally. So, at a time when Australia was becoming subject to both domestic and international economic challenges, political leadership found itself distracted. Furthermore, the bureaucracy too was to become subject to new forces. Whitwell (1986, 179) noted the transformation of the Treasury between 1969-71 combined a major reorganisation, staffing changes and the return of John Stone from the IMF in Washington, where he had been seconded for four years. Stone's influence marked a change from his predecessors, an embodiment of 'rationalist economics' with his own unique idiosyncrasies (covered in part 3), he was to become a key architect of Australian economic policy in the 1970s (Pusey 1991; Whitwell 1986) and problematic for the Hawke government of 1983 when he personified a Tinbergen defence line.

As stated in Part 1, the thesis distinguishes between the elected actors of government (being accountable to the electorate) and the non-elected actors of the bureaucracy (being accountable to government). The influence of the latter on the former is a close and complex relationship of exogenous forces on endogenous actions that becomes blurred at its nexus. It is a relationship that has been caricatured in contemporary media with the TV program "Yes Minister" (Lynn 2008). As institutional memory faded in the years following the end of the war and a new breed of economic bureaucrats entered the stage, empowered by rationalist ideology, it allowed exogenous forces greater proximity to influencing boundary lines, and consequently policy autonomy of government, that itself was vulnerable through the self-induced instability of the late 1960s and early 1970s.

Policy Effectiveness

As the 1970s approached, increasingly there were conflicting front-of-mind objectives and tensions forming between Government, Treasury and the RBA—all of which was to impact policy boundary lines and how they were defended. Keating (2015, 444) identified two points of view, the government and Treasury on the one hand, "tended to give priority to the objective of national

development and wanted ‘cheap money’ to promote faster economic development” and low interest rates to reduce the cost of public debt. Whereas the Reserve Bank was inevitably focused on the balance of payments as an immediate day-to-day concern, and its consequential impact on the level of employment. (Price stability was an issue shared by all three parties.) Keating sees this conflict of objectives contributing to inconsistent policy execution that would become more acute as economic conditions worsened from the early 1970s.

A criticism of Australian economic policy during the 1960s was its defensive and sometimes passive nature (Pusey 1991; Whitwell 1986). Were the governments of the time truly ‘nation-building’ as was being claimed or merely avoiding the hard decisions to sustainably transition the economy from that of a commodity based ‘settler society’? In Kelly’s (2008, 14) opinion:

A feature of Australia’s post-World War II progress has been the failure to diversify its export base and the lack of commitment to international standards. This period saw the greatest expansion of wealth in human history, driven by the explosion in world trade, but Australia participated as a half-member, not a full member.

Bell (1997, 124) described the postwar era as “Fordist”, being a period of industrialisation and mass consumption, based on a “national model of economic management, premised...on a degree of national policy autonomy in relation to financial markets.” Likewise, Broomhill (2008a, 226) described this period as, “driven by a cycle of growth based on increasing investment in mass manufacturing production, full employment and rising incomes which, in turn, promoted mass consumption.” This ‘nation-building’ saw a reduction in the reliance on the rural sector and rise in manufacturing from 5% to 18% of GNP from the mid-1950s to the late 1960s, with primary industries dropping from 15% to 9% over the same period. Mining exports grew from 6.6% to 27% of total exports between 1960 and 1970 (ibid.). However, Kelly (2008, 14), benchmarking Australia against its peer group over this period, referenced *The Economist’s* analysis of Australia’s falling income per head and its falling share of world exports, noting “its closed economy and declining competitiveness. Australia was the only industrialised nation that failed to increase its proportion of exports to GDP over the thirty years from 1960”.

Broomhill (2008b, 21), identified the changing nature of foreign direct investment at this time and its impact on Australia’s future dependency and vulnerability to foreign capital. He argued that investment was tied to the activity of emerging transnational corporations, mainly US and British, that owned or acquired plants enticed by protectionist trade policies. This “increased inflow of direct foreign investment resulted in a substantive increase in the share of foreign ownership and control of the Australian economy...concentrated in the emerging and most profitable sectors of the postwar economy” (ibid.). A position, it was argued, that diminished Australian ‘economic sovereignty’ and became a political issue for prime ministers Gorton (1968-71) and Whitlam (1972-

75), with neither being able to restrict the level of foreign control over critical swathes of the economy. An issue that would become more problematic from the mid-1980s with corporate investors changing their investment strategies and exporting, not re-investing, their dividends (ibid.)—being a palpable change in exogenous forces that would impact boundary lines and contribute to Paul Keating’s banana republic comparison.

From a manufacturing sector perspective, the level of protection during the 1950s and 1960s was similar to before the war so as to attract investment, with Australia generally shunning multilateral tariff reductions (Keating 2015, 440), and during the 1960s the mining and finance sectors began to equal manufacturing in attracting investment inflows. At the same time policymakers were *proactively* seeking new markets to de-risk Australia from its reliance on Britain and looked to the industrialising Asian economies, notably Japan, South Korea and Taiwan. The Menzies era treaty with Japan in 1957 signalled a new direction in favour of markets closer to home, and between 1948 and 1968 Japan’s share of Australia’s exports increased from 4 percent to 22 percent (Broomhill 2008b, 21), “and the growth of the Asian market has underpinned Australian development ever since” (Keating 2015, 441). As a result, there was a strong sense of optimism that Australia was becoming sufficiently diversified to withstand short-term reversals in trade (Whitwell 1986, 177). But others argued, according to Keating (2015, 441), “that the policy of protection led to slow trade growth relative to other developed economies” (as supported above by *The Economist* analysis) and stifled greater specialisation and valued-added production related to Australia’s comparative advantage.

The policy strategy also contributed to Australia’s loss of competitiveness. Following, the ‘wool boom’ in 1951 the deteriorating ‘cost-ratio’ differential between Australia and overseas markets started to impact Australia’s competitiveness and terms-of-trade which was further exacerbated by the sharp recession in 1961, triggering a slow but consistent decline in the viability of some key areas of Australia’s manufacturing base (Beggs 2015), a base that had contributed to the earlier ‘nation-building’ strategy. A decline referenced by Paul Keating in his ‘banana republic’ comments of 1986.

Did the government squander the advantage presented by the ‘golden age’, one that could have transitioned the re-structuring of the Australian economy onto a more sustainable and diversified base? In Wanna’s (1994, 229) opinion, “Whilst actively protecting industry on the one hand, the state also tended to neglect sustainable economic development and the competitiveness of Australian industry. Economic efficiency or the viability of protected industries was not a concern of state policy.” Later economic events, such as the recessions in the 1980s and early 1990s would

suggest an evolving structural issue with the Australian economy from the 1960s, particularly when compared to other OECD members. It begs the question, did the government have both the policy autonomy and clarity of strategy to make fundamental changes to the structure of the economy? Or from a political perspective was it easier to retain the *status quo*, a strategy that secured nine consecutive Coalition government election wins from 1949 to 1969. The time to have acted would have been before Menzies' retirement, following it the Coalition were distracted by political priorities for the rest of the 1960s and early 1970s, when the opportunity for structural change became that much harder in the face of a deteriorating economy and international financial market transition.

Swan's External Vs Internal Balance Relationship and Policy Autonomy

In the late 1950s and 1960s Australian economist T.W. Swan provided impactful insight into the interrelationships of the external balance (balance of payments) and the internal balance (employment and inflation), and the consequential impact on achieving policy autonomy. Put simply, his model started with the assumption that the balance of payments would be balanced, and for the internal balance employment would be maximised and inflation minimised to the extent possible. As one strayed from this position of 'equilibrium' one would enter one of four zones of "economic unhappiness" or alternatively using the language of this thesis, an erosion of policy autonomy (Swan 2023, chap. 1). Swan recognised that, and as previously discussed, the external and internal balances are not isolated variables, they are interdependent. However, Australian government influence over the external balance was limited, Australia being subject to the commodities market on the one hand and in constant current account deficit on the other—a significant policy autonomy constraint. As a consequence, in addition to the management of its reserves and given consistent strong growth and full employment, Australia was focused on managing inflation (Beggs 2015). In the 1950s and 1960s this was primarily achieved through the availability of credit, a function of the SRD system as noted earlier. In addition to credit the government did attack inflation through somewhat indirect means which impacted the external balance, for example by relaxing import tariffs, and after the end of the Bretton Woods system through overvaluing the Australian dollar to reduce import costs. However, it can be argued that within government and its bureaucracy the interdependencies between the external and internal balances were not fully understood as witnessed by the economic crises of 1952-53 and 1960-61, with poorly timed, 'stop-go' and conflicting fiscal and monetary policies. This limited understanding would continue to impact the effectiveness of economic management and how Australia could exploit its perceived policy autonomy.

Swan, when examining the external balance issue, recognised the vulnerability and dependency of smaller nations to favourable trading conditions, highlighting their effective inability to influence terms-of-trade—a situation that would be exacerbated for Australia as the global economy and competitive forces developed from the 1960s (Broomhill 2008b, 23), and would lead to Paul Keating’s ‘banana republic’ reference in 1986. Swan (2023, 47–48) used the term “political algebra” to describe these interrelationships and the failure of some policymakers to appreciate the inherent trade-offs. Swan (*ibid.*) argued:

In political algebra, with more kinds of freedom, we can eat some kinds of cake and still have others – but only if we discriminate according to the rules of the economic system. Those who are too ignorant, too greedy, or too ambitious to keep their choice within the rules will be disappointed; they will suffer that ‘economic remorse’ which Croce called the heart of Economics, and which Politics too often wears upon her sleeve.

Swan’s reference to ‘within the rules’ is echoed by Tinbergen’s (1967) ‘policy boundary conditions and defence lines’, and McKinnon’s (1993) ‘rules of the game’. Swan’s political algebra requires variables to change to shift boundary lines, or new rules to be determined to extend *permissible* policy autonomy and avoid what he describes as “economic remorse”.

In considering Swan’s model, Beggs squares the circle regarding the external balance and demand management, “if a government is committed to full employment, and required to maintain external balance, demand management is not enough; it must also pursue a sustainable division of demand between domestic and foreign goods” (Beggs 2015, 45). When taken with Swan’s words above, this highlights the challenge that would face policymakers in the 1970s following the end of the Bretton Woods system (and its impact on existing boundary lines), with nations scrambling to both understand and find solutions to the economic issues that would plague that decade. Without a complete understanding of policy interrelationships under the new, yet still evolving, post-Bretton Woods international financial system, policy effectiveness for economies like Australia’s would be challenged. And as proposed in this thesis, ineffective policy impacts perceptions of policy autonomy.

I will pick up the issue of the external balance later in Part 3, drawing upon the Pitchford Thesis and the impact of the floating exchange rate on the external balance, and the consequences for policy autonomy.

Changing Ideology

Greg Whitwell’s *The Treasury Line* (1986), Michael Pusey’s *Economic Rationalism in Canberra* (1991) and Alex Millmow’s *A History of Australasian Economic Thought* (2019) provide insight into the changing ideologies which placed further defence lines on policymaking and tested the will of

some senior bureaucrats to defend policy positions in the face of political pressure. Some of these differences were to be driven by the rise of neoliberal, or the Australian rationalist derivative, ideologies relating to resource allocation and free markets. Should the government continue to set policy to support the broadening of the economic base or let ‘the market’ allocate resources through a policy of deregulation. Initially, the government and bureaucracy’s distrust of ‘the market’ was evident immediately after the Second World War, as was shown by the level of government led intervention. But as institutional memory faded and with generational change within the policymaking elite, the market’s ‘rationalist logic’ in resource allocation became a preference, it became the Treasury line. Pusey (1991) argued it became dogma, that would weaponize defence lines.

This growing difference of opinion created a tension between Treasury and government, and led to a number of reorganisations and duplication of sources of economic advice that took the policymaking process far from the government-bureaucracy consensus model seen after the war to one of contention. A situation that created profoundly different policy preferences within the administration, as was exemplified by the way the Treasury attempted to “crush the [1965] report of the Vernon Committee” (Whitwell 1986, 164), whose recommendations on economic management were seen by Treasury as a threat to its own authority, methodology, and ideology. A rejection shared by Menzies, for political reasons, with Vernon’s recommendations being perceived as a constraint on the authority of government (Millmow 2019). From the late 1960s this growing tension between government and Treasury impacted policy development, effectiveness and consequently policy autonomy (Pusey 1991; Bell 2004; Whitwell 1986).

By the early 1970s domestic economic issues were on the rise (see below), which would be compounded by external systemic forces, events and shocks (e.g., the Nixon ‘shock’ of 1971, the end of the Bretton Woods system, and the 1973 oil crisis) that had policy repercussions for Australia and most other developed economies. This would challenge the policymaking elite, that itself was going through change and as described by Bell (1997b, 33), “economic opinion shifted to the right, Treasury was an important institution leading the push for market-oriented, neoliberal policy responses in both macroeconomic and microeconomic spheres.” This at a time that the Coalition government was distracted by internal conflicts (Whitwell 1986, 178), providing an opportunity for Treasury to increase its influence over policy strategy (Pusey 1991).

End of the ‘Golden Age’

As the end of the 1960s approached, the prosperity of the ‘golden age’ was showing signs of decay (Keating 2015, 445). Inflationary pressures were mounting, driven largely by: a commodities boom,

not dissimilar to the wool boom and imported inflation of 1951 (ABS 2018); rising wage rates *and* rising wage expectations, along with an increase in industrial unrest (Keating 2015, 445); the Australian dollar “was clearly undervalued” with inbound capital flows increasingly including “a large speculative element” that was exerting disproportionate pressure on the currency (Whitwell 1986, 176); and the prosperity of the age still drove an expectation of ever higher government expenditure (Keating 2015, 445). Whilst interest rates had been relatively stable in the prior decades, towards the end of the 1960s they started to increase due to inflationary pressures from both rising import costs and domestic wage expectations (*ibid.*, 443).

With the start of the 1970s the world was about to transition from the relative stability of the Bretton Woods system to something quite uncertain. Keating (*ibid.*, 447) summarised the Australian political-economic context at the start of that decade:

...severe structural imbalances were clearly emerging. A combination of wage increases, higher taxes, exchange appreciation, tariff cuts and high interest rates had squeezed profits and rendered the traded goods sector uncompetitive. In addition, the continuing policy disputes and inconsistencies reinforced a loss of business confidence.

Inevitably with economic performance declining and policy choices proving increasingly ineffective, the policy autonomy enjoyed and largely untested for much of the 1960s would become tested in the 1970s.

The second phase – 1971 to 1982

The US dollar “is our currency, but your problem.”

Quote attributed to John Connally, US Treasury Secretary to Nixon 1971-72 (Stone 2012a, 14)

“The depth of Australia’s emerging problems was not fully recognised during the 1970s.”

Ray Broomhill (2008b, 24)

Applying the thesis-lens, the second phase presents a period where exogenous forces and events come to the fore. It is a turbulent period globally that pressed in on boundary lines and from an Australian perspective saw the constricting of policy autonomy and the limiting of policy options. It is the period when the policy autonomy ‘shelter’ of the Bretton Woods system ended, and policy autonomy changed from being ‘assumed’ to becoming an ‘aspiration’. A key point of note is the extent to which this was accepted or recognised, many policymakers of the day believed that the economic certainties of the past would return, but others saw an opportunity for an ideological change—a reversal of state intervention and an increase in market or rationalist political-economics. As a consequence, this period witnessed the empowered systemic exogenous force of neoliberalism, fuelled by the increasing power of the financial markets and transnationalism.

End of Bretton Woods

If one was looking for a palpable tipping point between the first and second phases of the Australian postwar economy, it would be the end of the Bretton Woods system—being an exogenous systemic change to the international financial system. The end of the Bretton Woods system was a symptom not a cause of the economic troubles facing the global economy. The demand-led postwar boom was transitioning, and the troubled US economy and the role of the US dollar as the reserve currency were having a deleterious impact on the international financial system. The major economies were increasingly disagreeing on the actions to be taken to avoid importing inflationary pressures and stoking destabilising speculative flows—it was only a matter of time before the major currencies would permanently float to unhook themselves from the US dollar. The period of postwar cooperation that underpinned national policy autonomy was ending.

As covered above, Bretton Woods' demise was triggered by the 'Nixon Shock' in August 1971, its last breath was in early 1973 with the floating of the major currencies, but excluding the Australian dollar “reflecting the fact that Australia's financial sector was relatively undeveloped” and not capable of managing a free-floating currency (RBA 2020). Although there was some political consideration as to the merits of floating the Australian dollar and acquiescing to market forces, the Whitlam government retained the US dollar peg. Then in 1974 the peg was switched to a trade weighted index (TWI) of a basket of currencies, representative of Australia's trading partners, to dampen the volatility of the exchange rate—a policy that can be described as a *positive reaction* to endogenous forces to maintain a degree of policy autonomy. This 'hard peg' lasted until November 1976, when the mechanism was changed to allow revisions to the rate, at the discretion of a government committee—the 'crawling or adjustable peg', see figure 5. However, this move signalled the potential and likelihood for further changes in the exchange rate, which encouraged more speculation at a time that speculation was becoming more sophisticated and virulent, and as a consequence the Australian dollar became increasingly prey to currency predators until the 1983 float relieved some, but not all, of this destabilising pressure.

Economic Context

The 'oil shock' of late 1973, being both an economic response to the declining value of the US dollar and a political response to the events in the Middle East, fuelled both global inflation and recessionary forces. In the context of Australia and some other industrial economies, there was a deeper consequential systemic issue related to income distribution as profitability declined and economic growth slowed, impacting the drivers of investment (Pagan 1987, 120-21). Inflationary forces morphed into a new economic context, that of stagflation. And as Beggs (2015, 28) argues,

“The emergence of stagflation was not a result of bad policy, but rather occurred for reasons beyond the scope and reach of demand management policy—involving distributional conflict over a declining rate of output growth”. It was in this context of a concentrated barrage of exogenous systemic changes and shocks that Australia’s politicians and economic managers encountered the early 1970s, it was to challenge the conventional wisdom surrounding exiting policy boundary lines and assumed policy autonomy. In Millmow’s (2019, 176) words it was, “time to fashion a new wisdom for a new age. In Australia there was a bewildering turbulence of events in the first five years of the 1970s”.

The Whitlam government (December 1972–November 1975), the first Labor government in twenty-three years, embarked on an adventurous program of progressive and reformist policies just as inflation was accelerating (between 1971 to 1975 CPI rose from 6.1% to 15.3%), unemployment rising (between 1971 to 1975 it rose from 1.9% to 4.9%), and growth slowing (between 1971 to 1975 it fell from 4% to 1.2%) (all annualised rates) (Ville and Withers 2015, 555–89). To Keating (2015, 445), “Inflationary expectations were becoming entrenched and the fundamental conditions that had propelled economic expansion in the previous two decades had been eroded and the stagflation that marked the next two decades had begun.” From a policy effectiveness perspective Schedvin (1992, 459) argued that, “as a broad generalisation it can be said that under Bretton Woods wages growth adjusted to prevailing monetary conditions: after 1971 the relationship was reversed.” With this switch in ‘polarity’, the existing policy instruments became ineffective thereby diminishing policy effectiveness and likewise perceptions of policy autonomy. Michael Keating, echoing Schedvin (1992), considered the impact of the end of Bretton Woods on wage inflation in Australia:

...the more volatile exchange rates following the breakdown of the Bretton Woods system in 1971 removed another source of discipline over wage increases...some argue that monetary policy became less effective in restraining wages when exchange devaluation became possible. Thus, by the beginning of the 1970s, inflation and unemployment rose together. (Keating 2015, 445)

In Bell’s (1997b, 139) view, with stagflation taking hold in Australia, “The Whitlam government was caught flat footed and had clearly lost control of the macroeconomy by 1975 when unemployment soared and inflation rose to almost 16 percent”—impacting boundary lines and constraining policy autonomy. And as a consequence forced the 1975/6 Whitlam budget U-turn from expansionism to “a much more austere neoliberal strategy aimed at deflating the economy and controlling inflation” and critically, from a political-economic standpoint, “The Whitlam government...abandoned full employment goals” (ibid., 140). So, economic management had switched to a battle against stagflation that was focused on reducing inflation first—a mantra adopted later by Malcom Fraser, the Coalition leader. Exogenous forces clearly had their impact

on policy autonomy with the ditching of the full employment goal in favour of price stability, using Tinbergen's language, the defence lines which had held since 1945 had been breached. As a consequence, macroeconomic policy became *negatively reactive* with policy autonomy slipping away from the Labor government. A period of policy complexity and contradiction followed, as the incoming Coalition government sought to regain control over the economy on its terms.

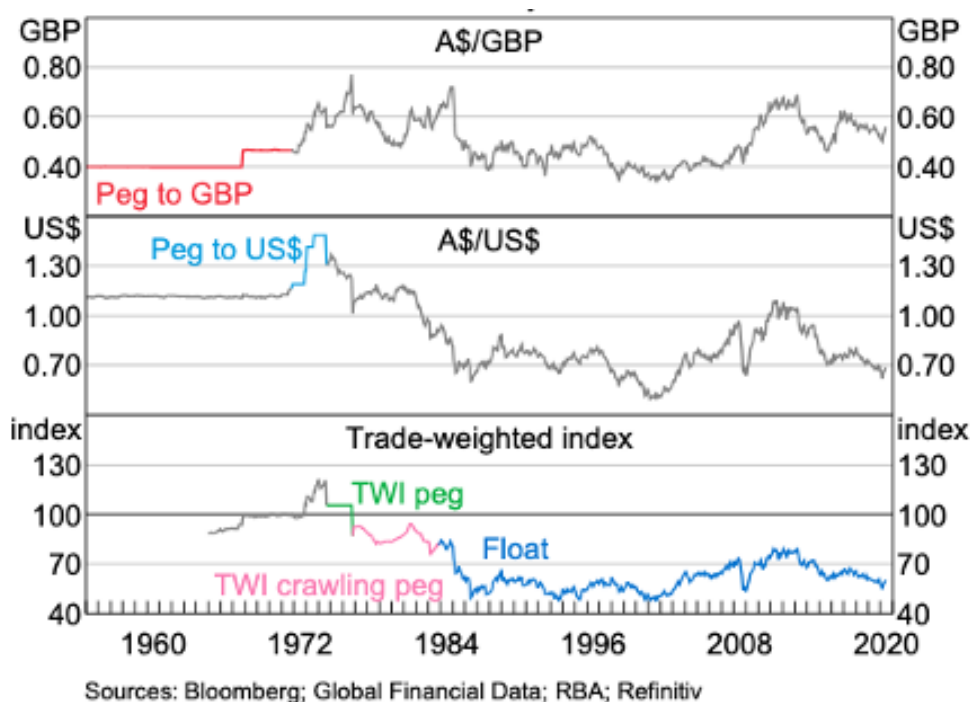
Australia, like many OECD countries had been showing symptoms of stagflation since the early 1970s and there was a political imperative to resolve the problem as it reflected a loss of control over the economy. But the incoming Fraser government's 'fight inflation first' mantra did not manifest itself into a suite of interlocking policies (Whitwell 1986, 447–48), furthermore the belief that investment would follow if inflation was checked was also flawed (Pagan 1987, 120). According to Millmow (2019, 183), the 'inflation first' strategy of 1976/77 was written by John Stone, a senior Treasury official who will surface again later and, "This puritanical approach was later described as the first 'economic rationalist' budget" (ibid). It would not prove successful.

This was a period, described by Helleiner (1996, 207) quoting Albert Bressand when, "The various 'invisible hands' now at work in the world economy can often be seen to be working against each other". Pagan (1987, 119) believed that, "monetary and fiscal policies were frequently in competition", being a further illustration of the unpreparedness of the Australian administration to deal with the new economic conditions—at one point in the mid-1970s under Whitlam, monetary policy was being tightened but at the same time fiscal policy was expansionary (Keating 2015, 446). A similar policy contradiction was to occur later in the decade when the Fraser government adopted simultaneously deflationary policies but with incentives "to engineer an investment-led recovery" (Bell 1997b, 140). Beggs (2015, 27) concurred, "Policy strategy shifted chaotically as crises piled up in the 1970s."

From a thesis-lens perspective this period of exogenous forces, shocks, and 'invisible hands' combined with uncoordinated, confused and 'chaotic' endogenous economic strategy exemplifies how boundary lines were not only re-set, but policy autonomy was constricted in a way not experienced since the war. The lack of strategic clarity by government of the day, its advisors and the bureaucracy found no way through the economic fog of the period. It would take until 1983, and the sheer political will of the Hawke government and greater clarity of effective policy options, combined with an improvement in international economic conditions, for meaningful policy autonomy to be re-established to facilitate an innovative political-economic strategy of recovery.

In terms of finding a way through the ‘economic fog’, by mid-1974 both the Treasury and the RBA were advocating that the priority must be to reduce inflation with a “short sharp shock”, an action that would be taken up by Volker for the US economy five-years later. But, as was witnessed in other advanced economies in the early 1970s, Australian politicians were reluctant to give up their political agendas as the price to restore economic stability, they assumed (based on the ‘economic certainties’ of the past) that there should be a more politically acceptable way, and a ‘short sharp shock’ approach was unpalatable for a struggling Whitlam government—being a discernible political defence line.

Figure 5: Australian dollar pre- and post- Bretton Woods system



Accessed 28 January 2025: <https://www.rba.gov.au/mkt-operations/ex-rate-rba-role-fx-mkt.html>.

Notes: Peg to the pound switched to the US dollar Nov 1967, TWI peg started September 1974, TWI crawling peg started November 1976, float in December 1983.

The reality was that during this time and for the rest of the 1970s, the exogenous forces and events of a post-Bretton Woods world of floating or adjustable exchange rates and the incomprehensible and seemingly embedded stagflation, the government and bureaucracy were in a ‘no man’s land’ of policy strategies. Conventional policy frameworks had become moribund and ineffective—this loss of control signalling a reduction in policy autonomy. Put into current vernacular—they were now learning on the job, not knowing which experts to trust and which policy frameworks would be effective. Furthermore, macroeconomics as a cohesive tool for economic management was in transition, with the increasing influence of unproven neoliberal or rationalist ideology within the bureaucracy over the previously accepted and understood norms of the Keynesian-synthesis that

still had adherents within government (Pusey 1991). With the deep, consequential and unresolved crisis of stagflation combined with ideological switching from Keynesianism to neoliberal policy structures, policy effectiveness went into stasis and as a consequence policy autonomy was compromised.

Both the Whitlam and Fraser governments (1972-1982) attempted to address wage inflation head-on. Just before it lost power in 1975 the Whitlam government, through the Australian Conciliation and Arbitration Commission (ACAC), reintroduced wage indexation which continued until 1981. ACAC was independent of government and free from political influence, its role was to preserve real wages and defuse claims from unions that might be deemed unreasonable, destabilising and inflationary. On the one hand this could be seen as government deliberately ceding power over wage inflation to a non-elected actor, however the trade-off was that by giving labour the confidence that real wages would be maintained, excessive anticipatory wage demands by the unions were unnecessary. This was a tactical re-setting of boundary lines that sought to allow productivity growth to exceed wage growth and thereby reduce unit labour costs (Beggs 2015, 209), and have a strategic impact on constraining longer-term inflationary pressures and in due course re-establish overall policy autonomy.

However, in June 1981, with increasing inflationary pressures, rising unemployment and recession biting, the Fraser government convinced ACAC to abandon wage indexation and “initiate a wages pause” (Beggs 2015, 209). By this time the unions were pushing to negotiate outside the ACAC system, as its effectiveness was diminishing, and according to Michael Keating (2015, 448), with “the economy...booming thanks to a short lived mining-boom...the unions were able to obtain large wage increases.” In 1982 the Fraser government met the subsequent increase in wage inflation with both a six-month pay freeze and a politically motivated (as an election was imminent) easing of macroeconomic policies—a further example of policy conflict that squandered policy autonomy. In Keating’s (ibid., 446-48) view the Fraser government ‘cherry picked’ policies from a broad range of conflicting options driven largely by political expediency rather than a coherent economic strategy. A lack of economic vision lamented at the time by Max Walsh, editor of the *Australian Financial Review*, (Millmow 2019, 204).

Switch to Monetarism

In terms of the thesis-lens, the transition of political-economic ideology from the Keynesian-synthesis to neoliberal-monetarism can be seen as the impact of a systemic exogenous force. The Keynesian-synthesis was embedded in government strategy, whereas neoliberal-monetarism was an unproven theory. But the strength of those largely unelected actors backing the neoliberal or

rationalist agenda cited policy ineffectiveness, and the consequential declining policy autonomy, to argue for a new strategic approach. And the new Coalition government was open to an ideology that had sympathy with the political ‘right’.

So, with the new government under Fraser (1975-1983) came an experiment with monetarism and monetary targeting to ‘fight inflation first’. Regarding the timing, in Bell’s (1997b, 140) opinion, “Australia adopted neoliberal policies relatively early: similar macroeconomic policy stances were not adopted in the US or in Britain until 1979.” But Bell (*ibid.*) does not see this shift to monetarism as an ideological transformation, but more a result of circumstances of confluence following the Whitlam government’s “perceived economic mismanagement”; the forced change of government in late 1975; and the “repudiation of orthodox Keynesianism that was a part of a wider neoliberal mobilisation”. By 1978 there was an institutional shift within the Australian bureaucracy with the Treasury’s rejection of Keynesianism (Millmow 2019, 185), and “its retreat back to the verities of neoclassicism and its growing scepticism about the value of active and discretionary macroeconomic management” (Bell 1997b, 140).

However, this switch in policy strategy did not generate the anticipated outcomes, what follows are annual rates: between 1975 and 1982 inflation fell from 15.3% to only 11.4%, with unemployment rising from 4.9% to 7.2%, and growth rising from 1.2% to 3.2%, driven by a fortuitous mini-resources boom which “ended as abruptly as it had begun” (Pagan 1987, 124). Hardly a return to the benchmark of Stevens’ ‘golden age’ of 5.5% growth, 2.5% inflation and 2% unemployment, and also contrary to the strong recovery achieved by many other OECD economies in the mid-1970s (*ibid.*, 108). More critically, in terms of policy choices, monetary targeting proved to be increasingly unworkable due to the inability to both accurately define and control the money supply within a ‘leaking’ financial system that was becoming increasingly open to the unregulated banking sector—the non-bank financial institutions (NBFIs) (i.e., hire purchase companies, merchant banks, money market dealers, building societies and pastoral finance companies).

Nevertheless, by the time of the 1978/9 budget the Fraser government had endorsed the switch from a government-led to a market-led economic recovery, the budget statement for that year stated:

Economic policy in recent years has been based on the premise that sustained economic growth can be achieved only through a revival in the private sector; within the constraints operating upon the policy framework, policy instruments have therefore been set so as to achieve the pre-conditions for a sustained recovery in private activity. Central to this has been the endeavour to control inflation. Quoted in (Pagan 1987, 119–20)

A position that Whitwell (1986) believed was very much the Treasury's line. However, when it came to monetary targeting, Whitwell (1986, 228) reflected that the Treasury did not subscribe to Friedman's "precise and rigid" M3 targets but preferred "conditional projections" as a more credible means to support decision makers. Keating (2015, 447) argued whilst the Coalition government, "accepted the monetarist critique of Keynesian policies, and specifically that there was no longer any trade-off between inflation and unemployment...[it did not] accept the other part of monetarist doctrine...[that] inflation could be brought down painlessly." So, unlike the US and UK a few years later, there was not the necessary political support to embed monetarist thinking deep into policy—an example of boundary lines being defended. And unlike the US, the Fraser government did not provide a similar level of central bank independence that was deemed essential in establishing the credibility of an anti-inflation monetary policy, Fraser was intent on retaining policy autonomy and not delegating it to an agency of government. Bell's indictment of the Fraser years sums up its poor policy strategy despite a strong political mandate, "Many neoliberals now look back on the activities of the Fraser years as a pretty half-hearted effort" (Bell 1997b, 140).

Questioning the Financial System

The turbulent period following the end of the Bretton Woods system witnessed the questioning of the 'economic certainties' that had embedded both political expectations prior to the 1970s, and expectations of *ongoing* policy autonomy. Australian policymakers were now having to deal with profound new exogenous forces and events leading to economic uncertainties and competing analysis and advice. With the Keynesian-synthesis of demand management being rejected and, in due course, substituted with the supply-side methodology of monetarism, which in turn was challenged by the effectiveness of both monetary targeting and exchange rate management, policymakers sought to understand the change in the underlying economic context of the late 1970s—an essential prerequisite for understanding policy boundary lines and the limits to policy autonomy.

In Australia, like many other advanced economies, a pivotal question for politicians was, 'is the existing financial system that underpins the economy still fit for purpose?', since it was largely based on the now defunct Bretton Woods system. By the late 1970s pressure was mounting from within Treasurer John Howard's office for a comprehensive review of Australia's financial system as a precursor to introducing market reforms—a politically neutral description for deregulation, that sat at the heart of neoliberalism. Howard was seeking to find a way to re-establish policy autonomy to address the prevailing economic ills and increase policy effectiveness by embedding a neoliberal agenda. According to Nevile (1997, 276), John Hewson, a ministerial advisor, was able

to convince Howard of the need for an inquiry to break the policy ‘log-jam’ within the administration and establish a clear strategic path. Hewson, an economist who had worked at the IMF on international capital markets, whose experience “undoubtedly influenced his views on the need for change and his belief that a public inquiry would greatly assist a move towards a market-based system” (Nevile 1997, 276). Nevile, based on an interview with J. M. Phillips (Chief Manager, Financial Markets Group, RBA) in 1995, identified one point of contention, “[the] on-going tug-of-war...within the policy community as bureaucratic in-fighting, couched in political and economic terms, between the Prime Minister’s representatives, the Treasury’s representative and the Reserve Bank *over how the exchange rate should be set*” (ibid., 277) (italics added). Currency management was front of mind following the switch to a ‘crawling peg’ in 1976, and from 1977 the non-elected actors within Treasury and RBA were unilaterally adopting more discernible monetarist policies over the growth of the money supply and actively managing the exchange rate to address inflation by letting it rise to reduce import costs. But there were those in government that sought to depress the exchange rate to stimulate trade. A prime example of exogenous ideology over endogenous action that undermined the policy autonomy of government and further created endogenous tension within government. The artificiality of setting the exchange rate was contentious and grated with those seeking to promote a market driven economy and reduce government intervention. Pagan (1987, 118), in *The end of the long boom* added to the debate about the impact of the poorly managed exchange rate regime, “there seems little doubt that the recession [of the late 1970s], although probably inescapable, was intensified by a policy that opted for an overvalued exchange rate”. An example of a Tinbergen boundary condition, where the overvalued exchange rate had repercussions for the economy by increasing the potency of the recession.

With pressure from Howard and Hewson, in February 1978 the Fraser cabinet agreed to establish the Committee of Inquiry into the Australian Financial System, later known as the Campbell Committee. This despite a lack of consensus within Cabinet regarding the need for financial market deregulation. According to Pauly (1987, 35), some in Cabinet saw the inquiry as a politically expedient way to postpone a decision to address the financial system, since primary producers (generally National Party constituents) were prospering and saw little need for change—an example of Tinbergen defence lines. Consequently, the National Party tried to dominate the debate within the Coalition as it “wanted as low an exchange rate as could be manipulated...[whilst] the Treasury, concerned about inflation rather than rural exporters...wanted as high an exchange rate as could be manipulated” (Nevile 1997, 226–27). Neither body of opinion (i.e., the National Party caucus or Treasury) were seeking a market-based exchange rate, so neither truly supported the inquiry. Nevertheless, by January 1979 Howard pushed through the decision to have an inquiry,

which became an intellectual pivot point in the transition of Australian political-economy and facilitated the restoration of policy autonomy under the Hawke government.

The Campbell Committee

Nevile (2002) argued that the formation of the Campbell Committee reflected the mutual interdependence of prevailing economic and ideological drivers. In terms of this thesis, the Campbell Committee was a response to the confluence of exogenous forces and events that had been building over the 1970s with political action finally triggered by a domestic financial market shock and a recognition by some in government of a need for systemic change to the financial systems underpinning the Australian economy. To this end the appointment of the Campbell Committee can be seen as the endogenous intellectual tipping point between the interventionism of the postwar years and the market-oriented liberalising ideology that was to gain dominance from 1983 onwards. But whilst it may well be an intellectual tipping point it was far from a smooth transition and provides insight into how macroeconomic policy autonomy evolved in practice through political will and opportunism.

In Berg's (2016, 712) view, "The Campbell Committee was instigated in response to a political crisis created by an economic crisis". Berg traced the origins of the Campbell Committee back to the Whitlam government's decision not to proclaim Part IV of the *Financial Corporations Act 1974*, which would have imposed similar regulations on the NBFIs as those imposed on the retail banks. At this time the NBFIs sector was subject to loose prudential regulation by the individual Australian states. The Whitlam government believed that federal monetary regulation of the NBFIs could have a negative impact on the availability of credit at a time when the economy was being boosted. Also, there was some practical concern over the federal government taking responsibility for six discrete state based regulatory systems (Berg 2016). At the December 1975 election, Fraser (1975) promised a capital market inquiry focused on the availability of finance for the small business sector, an issue that would also influence Paul Keating's thinking a decade later. Despite Fraser's election promise, nothing was instigated until a building society prudential crisis became a political issue during the 1977 federal election. As noted above, federal intervention in the NBFIs sector was not favoured by the RBA nor Treasury more on pragmatic grounds than ideology, and what emerged were two distinct political avenues of policy investigation into the potential for a deposit insurance scheme to address the prudential issue and an inquiry into the broader financial system to address the mechanics of increasingly ineffective monetary policy that was impacting policy autonomy (Berg 2016).

The push for a financial system inquiry was coming from different quarters, as early as the late 1950s Coombs (1958), the RBA Governor, had been cognisant of the inverse relationship between the growth of unregulated NBFIs and the decreasing effectiveness of monetary policy over the financial sector. And according to Berg (2016, 718), by 1977 the “Treasury and the RBA, through [Treasurer] Lynch, were using the internal debate over Part IV to agitate for broader concerns about financial efficiency and the regulatory framework governing the financial sector as a whole”. The collapse of the Queensland Permanent Building Society in 1977 inflamed this political debate and highlighted the Coalition government’s inaction to what was proving a high profile issue—an exogenous shock that would subsequently impact boundary lines.

Howard gave voice to those, such as Hewson, who were expressing concern about the relationship between the financial system (as a transmission mechanism for policy) and the effectiveness of monetary policy, and the various complex and interrelated vested interests within the existing regulatory system which hindered the adoption of a market-based system. In February 1978 the Monetary Policy Committee of Cabinet (MPC) formally instructed Howard to propose options for an inquiry into the capital market. In July Howard offered up two options, one a narrow inquiry centred only on the capital market, the other a broader inquiry into the financial system (Berg 2016). The MPC chose the broad option, but key to its acceptance was that it was non-binding on government (Pauly 1987, 36).

In July 1978 the terms of reference of the Inquiry were finalised, see figure 6. Its opening statement recognised “the importance of the efficiency of the financial system for the Government’s free enterprise objectives” (Campbell Committee 1981, xxiii). The ideological leaning of the committee, chosen by Howard, was market-oriented with members from the business and financial communities with a free-market and deregulatory bent (Pauly 1987, 36). Howard announced the inquiry in January 1979 adding, “the objective...was not more regulation by the Government. Indeed, one of the important issues to be canvassed by the Inquiry would be whether present levels of regulation and Government involvement were appropriate” (Berg 2016, 719). The political flavour of the inquiry and its rules of engagement had been set. To paraphrase Paul Keating five years later, the “road-map” for restructuring the Australian financial market was about to be prepared (Bramston 2017, 197), with profound implications for future policy autonomy.

The inquiry “drew upon considerable economics expertise, including Tom Valentine (who acted as Research Consultant), Michael Porter and Fred Argy (who acted as Secretary to the Committee). It was a report of some consequence” (Millmow 2019, 162). It lasted 34 months to September 1981, with over 300 submissions, a number of specifically commissioned studies, and 115 public and some private hearings. Engagement with the inquiry was primary from those with a vested

interest in the outcome. There were no contributions from the Labor Party nor the Australian Council of Trade Unions (ACTU) as they disagreed with what they saw as ideologically biased terms of reference (Pauly 1987, 36-48).

Figure 6 – Campbell Committee’s Terms of Reference, January 1979

“The Terms of Reference are:
In view of the importance of the efficiency of the financial system for the Government’s free enterprise objectives and broad goals for national economic prosperity, the Committee is asked to:

- (a) Inquire into and report on the structure and methods of operation of the Australian financial system including the following institutions:
 - (i) banks and non-bank financial institutions, including in relation to foreign exchange;
 - (ii) the securities industry generally;
 - (iii) the short-term money market, both official and non-official segments;
 - (iv) specialist development finance institutions including the Australian Resources Development Bank, the Australian Industry Development Corporation, the Commonwealth Development Bank and the Primary Industry Bank of Australia; and the Reserve Bank of Australia.
- (b) To inquire into and report on the regulation and control of the system.
- (c) To make recommendations:
 - (i) for the improvement of the structure and operations of the financial system;
 - (ii) on the regulation and control of the financial system; and
 - (iii) concerning the existing legislation relating to the financial system including more importantly the Reserve Bank Act, the Banking Act and Regulations, Financial Corporations Act etc.
- (d) To Inquire into and report and make recommendations on such other matters as the Inquiry believes relevant to the generality of its inquiries.”

Source: Committee of Inquiry into the Australian Financial System (1981, xxiii–xxiv)

As the Campbell Committee did its work, the Fraser government instigated some piecemeal monetary policy changes to appease the domestic banking sector that was losing market share and profitability to the NBFIs, and to reduce the ‘leakage’ that was hindering the effectiveness of monetary targeting. These changes included the removal both of interest rate ceilings (except for home loans) and quantitative guidance for the retail banks, and the relaxing of portfolio controls on savings banks. In addition, a tender system for treasury bonds was introduced, which was a significant market-embracing step for the Coalition government. However, there was no radical re-setting of policy boundaries that was to be the flavour of the subsequent Labor government to re-establish policy autonomy.

From an outcome perspective “the [Campbell] Committee fully met the deregulatory hopes of its principal political sponsors” (Valentine 1991), it created a climate of ‘permission’ within that community. However, critics argued that whilst it was long on setting ideologically driven goals, it came up short on implementation. This detail was very much left to the politicians and policymakers, “the Committee created a blueprint for...deregulation which was to create a competitive financial system, not a detailed plan for the future development of the financial system” (ibid.). The Campbell Committee recommendations can be divided into five core areas of focus:

- Macroeconomic management – namely; floating the Australian dollar, relaxing exchange controls, introducing variable cash reserve requirement for banks, open market operations to become the principal instrument of monetary policy, with an ongoing role of credible intermediate monetary targeting (note the Committee’s explicit preference for quantity targeting over interest rate targeting (Campbell Committee 1981, 55), but as Ian Sharpe (1982, 291) observed, “the technical aspects of monetary control...[were]...largely ignored (i.e. the means of achieving the monetary target).”).
- Deregulation of financial products – such as removing interest rate caps and maturity restrictions. Thus, dismantling one of the existing transmission mechanisms of monetary policy to encourage competition, and so indirectly allowing the cash-rate to have the potential to become a primary instrument of monetary policy.
- Entry of foreign banks into the Australian financial market to promote competition.
- Privatised government owned financial intermediaries to encourage market forces.
- Introduce prudential regulation over banks and NBFIs to provide market stability and protect depositors, on a competitive neutrality basis, centred on direct liquidity, capital controls and a supervisory regime.

Valentine (1991) took the view that the Committee believed its recommendations would lead to an overall increase in the efficiency of Australia’s financial system, as measured by improvements in:

- Allocative efficiency – allowing savings to flow into the highest yielding investments thus increasing the economy’s productiveness.
- Operational efficiency – by facilitating cost reductions through more effective interest rate margin management and the removal of interest rate ceilings.
- Dynamic efficiency – facilitating new innovative financial products to meet the changing needs of customers.

However, the Committee did not speculate on the temporal impact of these structural outcomes, Valentine (ibid.) noted, “One of the advantages claimed for a free-market is that it allows the system to develop in ways which are in line with the desires of users...and most of these developments are basically unpredictable.” But, surrendering to the free-market on these terms pulls the rug from under government from a political perspective where timing and the transmission lag is critical, and from an economic management perspective where policy needs to be coordinated to be effective.

From a thesis-lens perspective, the Inquiry personified an exogenous force of ideological change. Many writers identified the Committee and its recommendations with the “ideological tenor of the times, it endorsed the market” (Bell 2004, 22). However, as Sharpe (1982, 292) commented (the italicisation is his):

[A] cynic may well conclude that the Campbell Report is not an exercise in deregulation. Rather, it involves a *shift* from a regulatory framework based on portfolio restrictions and direct control to one based on a very large and costly examination and supervisory procedure and direct capital and liquidity controls. Furthermore, it envisages a very much enlarged role of the Reserve Bank and state authorities in the regulation and supervision of the financial system.

Furthermore, Bryan and Rafferty (1999, 125–32) argued that the subsequent Labor government’s actions following the 1981 Campbell and related 1984 Martin reports, “lifted certain controls but imposed others in the sphere of prudential supervision and the role of the RBA in the foreign exchange market (the fact that in the late 1980s these controls were poorly implemented is a different matter).” In short, the Campbell Committee recommendations should not be seen as deregulation, but as a change in regulation, not in response to some ideological driver, but to the changing context in which the Australian economy was operating following the end of the Bretton Woods system a decade earlier. These arguments add weight to the notion that certain exogenous forces, in this case ideological, are not necessarily accepted *per se* but are subject to endogenous-driven defence lines that can re-shape the very same exogenous forces. Examples of this include the fact that Australia had its own version of neoliberalism called rationalism, and that Australia’s monetary-targeting methodology was far less prescriptive than the US and UK.

In addition even the Committee acknowledged that there could be no *carte blanche* ‘untethered neoliberalism’, the report stated, “ultimate determination of and responsibility for overall economic policy—including monetary policy—cannot be effectively divorced from government and the Parliament...The Bank cannot rise above the source of its powers” (Campbell Committee 1981, 20–21). In response to submissions advocating greater independence for the RBA, the Committee concluded, “proposals to make the Bank fully independent of government would...amount to the substitution of bureaucratic for political discretion which would be inconsistent with the process of democratic government” (*ibid.*, 19).

Opposition (i.e., defence lines), to the report’s many recommendations was drawn from a broad church, including within government where endogenous tension was palpable. Bell (2004, 23) observed, “The Fraser government responded cautiously if not coolly to the Campbell Committee’s radical agenda”. Critically, as Pauly (1987, 54) argued:

...the Treasurer and his advisers realized that the magnitude of opposition threatened to kill it even before implementation plans were worked out. With a divided Cabinet, a

cautious prime minister, an antagonistic Treasury, and a vocal parliamentary opposition, the probability that the report would be ‘shelved’ appeared high.

By 1982 Fraser was facing political and economic pressures in the run-up to the next election (Weller 1989, 376–82), “the [Australian] economy entered the worst recession since World War 2” (Keating 2015, 448), with (annual rates) inflation 10.5 percent (GNE deflator: ABS, cat. No. 5206, Table 5), unemployment 9 percent (RBA, n.d.-b, tbl. h05 hist), real non-farm GDP 2.4 percent (RBA, n.d.-b, tbl. h01 hist), the worst drought for decades, and a challenge to his leadership. So inevitably, the Campbell Report as a piece of liberalisation strategy, “slipped far down on the list of the Cabinet’s list of priorities” (Pauly 1987, 56). Fraser chose to trade financial market reform for political expediency.

Whilst the Labor party had objected both to the establishment of the inquiry and the report, there were those in the party, notably Hawke and Keating who recognised the contextual change of the 1980s economy, and what was required to regain control—to re-establish policy autonomy. This was evidenced by what they inherited in March 1983 when Labor replaced the Coalition in government, and the exogenous forces they faced during the rest of that year (Kelly 2008). These exogenous forces at play in 1983 would require a mitigating, innovative, if not radical agenda, on a par with the proactive policies of Chifley and Whitlam. A circumstance that would require an equally proactive policy strategy to re-set boundary lines and carve out sufficient policy autonomy to pursue Labor’s political-economic agenda to drive the “recovery and reconstruction” of the economy (Hawke 1983).

The Campbell Report, despite being side-lined by Fraser, presented a proactive political-economic agenda for the rest of the decade. In due course, it provided a ‘road-map’ for the incoming Hawke government’s future liberalisation of the capital, currency and retail banking markets, that interlocked with the policies related to its proposed centre piece—the Accord. Whilst the recommendations had established ‘permission’ from selected sectors of the economic community it still faced considerable ‘defence lines’ from many in the Labor party caucus. However, the economic conditions inherited by the incoming Labor government of 1983 allowed Hawke and Keating to re-set boundary lines and bring the Labor caucus with them—there was an economic imperative. Soon Labor was to subsume within its own agenda policies that were more ideologically aligned with the Coalition (see figure 7). A deft piece of policy boundary line realignment that expanded the scope of Labor’s policy autonomy and empowered government to implement its reformist agenda, that in March 1983 was subject to considerable exogenous resistance from the media and currency markets. This is considered in greater detail in Part 3.

Figure 7 - Cartoon by Geoff Pryor (1983) "How long are you going to let this thing go on?"



'How long are you going to let this thing go on' cartoon by Geoff Pryor depicting (from left) Paul Keating, Bob Hawke, Andrew Peacock and John Howard, 1983

Source: <https://www.nma.gov.au/defining-moments/resources/australian-dollar-floated> (accessed 11 February 2025).

Note: Andrew Peacock replaced Malcom Fraser as Coalition leader in March 1983.

The third phase – 1983 to the 'banana republic'

"The mid-1980s constituted an important turning point in Australia's political and economic history."
Ray Broomhill (2008a, 224)

The third phase, the first two Hawke governments, are a lesson both in positively reactive and proactive policy strategy to re-set boundary lines and carve out sufficient policy autonomy to enable a reformist political-economic agenda in the face of stiff exogenous opposition. The new Labor government deftly combined political opportunism with gaining permission from exogenous forces, by recognising the power of the market and working with it, but on the government's terms. This period witnessed the transition from the policy autonomy shelter of the Bretton Woods system to one of endogenous self-determination epitomised by the Hawke government re-setting boundary lines.

The First Hawke Government

The incoming Hawke government of March 1983 sought to address the inherited economic crisis and persistent stagflation, by introducing an:

European-style corporatist wages policy in the form of a Prices and Incomes Accord between the state and the trade union movement...[and simultaneously]...promote economic 'recovery' with a Keynesian-style expansionist fiscal policy while still controlling inflationary wage movements through the Accord. (Broomhill 2008a, 231)

The Hawke government's original budget deficit program is summarised in appendix B, but this would be revised formally in the August budget to accommodate the inherited budget deficit blow-out.

Going into the election the interlocking policies of the Accord, in *simultaneous* combination with a fiscal economic recovery package in a traditional Keynesian style had the support of the Labor caucus and ACTU, and following the National Economic Summit in April 1983 there was general consensus from chosen leaders of the private sector. As described by Bramston (2017, 199), "This unprecedented event [the Summit] inaugurated a new style of policy-making that prized consultation and cooperation between capital and labour." It gave the new government 'permission' to extend policy boundary lines at a time of apprehension regarding Labor's true agenda caused by pre-election fear mongering stoked by the Coalition and its allies. Millmow (2019, 191) believed, "The Accord aimed to realign factor shares in favour of capital, discounting the real wage for domestic expansion." The Treasury and OECD were sceptical that this mix of fiscal stimulus and incomes policy would be effective to deal with unemployment. But following a review of this policy strategy, the Brookings Institute and the ANU's Centre for Economic Policy Research concurred with the Hawke government's approach (Millmow 2019, 192).

However, as will be covered in Part 3, an inherited budget deficit 'blow-out' and exogenous economic forces, primarily powerfully disruptive speculative currency inflows, would lead to the Hawke government quickly amending its fiscal expansion strategy and later in 1983 introduce a range of financial, banking and currency sector reforms, including the float of the Australian dollar. The Labor party were openly embracing the market to extend their policy boundary lines, this expanded policy autonomy allowed the process of simultaneously liberalising the financial sector, where the defence lines were from within caucus, and introducing its expansionary and social programs, where the defence lines were the financial markets.

Key to the Labor party's success in extending its policy autonomy was the Accord. It was a tangible acknowledgement that *permission* had been granted by exogenous forces that boundary lines could be re-set and policy autonomy extended. This achievement by the Labor leadership helped in bringing with it the Labor caucus, which had resisted Hawke and Keatings change in policy strategy following the election, and reflected "a trend towards a more market-orientated approach evident in many western capitalist countries," such as France where the socialist government of Mitterrand had performed a similar policy shift (Broomhill 2008a, 231). One initiative that the Hawke

government embraced was the opening of the retail banking sector to break what they regarded as restrictive and conservative practices that inhibited the development of smaller businesses—concerns that had been echoed by both Whitlam and Fraser, but neither addressed. The use of the ‘market’ to free up what they saw as blockages in the mechanics of the economy was to become a characteristic of the Hawke, then Keating governments (ibid.).

Collins and Cottle (2010) regarded the revised Labor economic strategy as opportunistic and pragmatic, calling it, “Neo-Laborism” being fundamentally distinct from neoliberalism, and a demonstration of policy autonomy carved out by the Hawke government. Whereas Conley (2025) described the underlying motivation as one of, “social democratic neoliberalism” as witnessed by the social programs that ran in tandem with financial market liberalisation. Regardless, Banuri and Schor (1992a, 123) argued, “it seemed therefore that the Government’s perceived pro-market stance was proving very successful in securing room for government-led expansion without destabilizing the foreign-exchange markets. But the lull proved temporary.” As the currency crises from 1985 would later attest.

The Dynamics of the Policy Trilemma

Before considering the currency market issues that the Hawke government would face, I reference the origins of the policy trilemma hypothesis as comparative background and consider it in relation to the thesis-lens. The trilemma provides a succinct summary of the policy dilemma that faced government prior to the float of the Australian dollar, with each of the three policy combinations presenting a different boundary condition or policy consequence that would narrow policy autonomy and require government to make a choice.

The ‘policy trilemma’ hypothesis, that evolved in the 1960s from Canadian economist Robert Mundell (and independently, by John Fleming), provided a framework for understanding the trade-off faced by policymakers to achieve degrees on monetary policy autonomy. Mundell’s empirical work was based on the experience of Canada as the economic and geographic neighbour of the US (Krugman 1999). Canadian macroeconomic managers had learned early on that they could not effectively control the movement of capital with the US and “given those uncontrolled movements...Canada could not fix its exchange rate without giving up control over its own monetary policy... [and becoming a] monetary ward of the Federal Reserve” (ibid.). As a consequence, “from 1949 to 1962 Canada made the almost unique decision to let its currency float against the U.S. dollar” to maintain monetary policy autonomy (ibid.), a situation not lost on Australian policymakers given Australia’s dependency on capital inflows and trade.

A key lesson from the trilemma, and one that would become acutely real in 1983, was the power of the currency markets and the scarifying forces of speculation that meant a government could not achieve simultaneously a fixed exchange rate, control over monetary policy (in this case interest rates) and a free-flow of capital. So, this ‘impossible trinity’ led to the following ‘policy trilemma’ hypothesis:

- If a government wanted a fixed exchange rate and monetary policy autonomy it needed to implement capital controls to prevent arbitrage—which was the Bretton Woods system, under which Australia operated to 1973, and with declining effectiveness under the pegged system until 1983.
- If a government wanted a fixed exchange rate and the free-flow of capital it had to cede sovereignty over monetary policy and mark interest rates to the international market.
- If a government wanted free-flow of capital and sovereignty over monetary policy it had to forgo a fixed exchange rate and allow it to be set by the market—a free-float policy.

However, as Krugman (*ibid.*) observed, given their size and power the international financial markets cannot be readily controlled, therefore the free-flow of capital under the trilemma model becomes ‘a given’, so there is only one other practical monetary policy variable left, it is a choice between exchange rate or interest rate policy. A situation that soon became a burning issue for the Hawke government from March 1983 so that by December 1983, whilst interest rate policy was a concern for the RBA, it was the destabilising speculative forces of capital and currency movements (relative to monetary targeting and inflationary pressures) that triggered both the float and the liberalisation of Australia’s financial market (Banuri and Schor 1992a, 119).

From a thesis-lens perspective it could be argued that the government had no choice but to float—which can be seen as a limiting of policy autonomy. However, I argue that it is a matter of context, the global financial systems in 1983 were radically different to those of 1973, the year Bretton Woods ended. The Hawke government’s currency market liberalisation in 1983, whilst triggered by exogenous forces, were very much shaped by the government’s choices and utilised the ‘permissions’ it had garnered during the course of that year.

The Float

My approach to considering the float of the Australian dollar, a pivotal event, is to consider in detail the timeline, forces, tensions, actions and decision-makers from the time of the federal election in March 1983 to the announcement of the float the following December. My aim is to understand how the new government addressed boundary conditions and defence lines to extend policy autonomy. To what extent were the newly elected political leaders steering a path to achieve

their political-economic objectives or were they drawn along a path by forces contrary to those objectives? This is covered in Part 3.

1984-86

Michael Keating (2015, 449) described the period from 1984 to the end of that decade as one where, “wages policy was the principal instrument of economic policy. It was expected to bear the main burden of unwinding inflation without resort to unemployment, while at the same time achieving an improvement in profit share and even real wage reductions,” with monetary policy generally playing a “supporting role through this period.” The cash-rate setting by the RBA, the principle monetary policy instrument following the float, was used to address the current account deficit, not inflation. Whilst these policies were focused on the immediately pressing issue of economic management, the Hawke government continued with the structural changes to the finance sector to stimulate competition and loosen restrictions on credit (see figure 8), as Paul Keating described it, “Financial deregulation turned banks from rationers of credit to creators of credit” (Keating in an interview with O’Brien (2015, 260)).

Figure 8 – Financial Market Regulatory Changes 1984-1988

1984	April	Release of the Martin Report, which ostensibly confirmed the recommendations of the Campbell Report.
	August	All remaining controls on bank deposits removed. Savings banks permitted to offer chequing facilities.
1985	February	16 foreign banks invited to take up banking licences.
	April	Remaining ceilings on bank interest rates removed, except those on owner-occupied housing loans under \$100,000.
	May	The Prime Assets Ratio (PAR) replaced the Liquid Government Securities (LGS) convention.
	September	The first foreign bank began trading.
1986	April	Interest rate ceiling on new housing loans removed.
1987	April	Savings bank reserve asset ratio reduced to 13 percent.
1988	September	SRD ratio reduced to zero (previously had been 7 percent for trading banks), and those funds transferred to “non-callable deposits”, with those funds in excess of 1 percent of liabilities to be gradually returned to banks. Free tranche for savings banks increased from 6 to 40 percent, as an interim step towards removing the distinction between savings banks and trading banks. PAR reduced from 12 to 10 percent. PAR to replace existing savings bank regulations.

Source: Battellino and McMillan (1989) and Reserve Bank of Australia Bulletins

Whilst the measures to address stagflation during the Hawke government’s first term (1983-1984) were proving effective, by early 1985 Australia’s balance of payments was becoming problematic as the TWI fell by 41 percent between November 1984 and July 1986, foreign indebtedness rose rapidly, and the terms-of-trade deteriorated (Keating 2015, 448). It was this conjunction of events

that sparked Paul Keating's banana republic comparison, which is considered below. Quoted in O'Brien (2015, 142), Paul Keating reflected:

In the end I was the guy who had inherited the long secular decline in Australia's terms of trade from the middle 1960s. It got to the bottom in 1986, the banana republic year, but it was already there in substance when I arrived. The place had become more closed and more rigid with each year, so you either went along with the orthodoxy and watched it decline further, or you decided to blow the game up and say we're taking a new path.

This is Paul Keating declaring that, as Treasurer, he was seeking to re-set policy boundary lines. But did he have the policy autonomy to do this? According to O'Brien (2015, 233), "1986 was a pivotal year for the Hawke Government and for Keating. He later told one of his biographers, John Edwards, 'Up to 1986 we controlled the agenda, and then we did not'."

Turning and Tipping Points

Whilst I see the Campbell Report as an intellectual tipping point in the transition of Australian political-economy, Broomhill (2008a, 224–25) in his chapter in *Turning Points in Australian History*, viewed Paul Keating's 'banana republic' reference of 14 May 1986 as an acknowledgement of the fundamental intent to change policy boundary lines. It was:

...the beginning of a new phase, markedly different in important ways from the previous era...Keating alerted Australians to the realities of changes in the global economy, and the event arguably marked a fundamental paradigm shift in policy thinking on domestic and foreign economic issues...Keating's 'banana republic' comments marked the beginning of a period of rapid structural change that transformed the Australian economy. (ibid)

To Broomhill (2008a, 226) this is a transition from F.G. Castles' 'domestic defence' model, "alternatively known as the Australian Settlement, in which key parts of the economy were shielded from the volatility of international markets through the protection of manufacturing industries and labour"—a model that lasted into the crises of the 1970s and early 1980s. But as discussed earlier, the domestic defence model was proving increasingly challenged by the evolving exogenous forces related to speculative currency trading, globalisation and transnationalism impacting comparative advantage, and the fact that Australia remained vulnerable to a narrow band of global trade despite attempts to diversify.

By the time the Hawke government entered its second term (from December 1984), and despite improving economic indicators, some systemic issues were turning chronic. The manufacturing sector, an important component of the 1950s-1960s 'nation-building', was in decline with "the loss of over 200,000 jobs in manufacturing in the early 1980s" (Collins and Cottle 2010, 32); both the current account deficit and foreign debt were ballooning, the latter driven by private sector, not government, activity; and trade performance was weakening. A situation exacerbated by the government's earlier deregulation of the financial and currency markets, that Broomhill (2008b,

25) believes, “made it much more attractive for business to engage in speculative rather than in productive investment,” and the floating dollar that went into freefall from late 1984. Also, Broomhill (*ibid.*) identified the impact of profit repatriation, rather than re-investment, by transnational corporations switching their investment strategies:

As local investment stagnated, the already existing domination of the Australian economy by transnational corporations increased, resulting in further integration of Australia into the international capitalist economy and further vulnerability to shifting international forces.

It was this confluence of exogenous forces that drove Paul Keating to use the ‘banana republic’ metaphor to describe the potential risk from Australia’s continuing dependence on foreign capital, its limited trading capacity and competitiveness, and its continuing economic vulnerability, with profits being repatriated overseas. Broomhill sees Keating’s statement as symbolising an irreversible end to a political-economic era that had lasted some four decades. The transition from the policy autonomy shelter of the Bretton Woods system was complete, policy autonomy would now be defined by new boundary lines. But, Broomhill believed, Labor struggled with developing effective policies that balanced social welfare obligations and market forces, a dilemma that would not faze the future ‘rationalist’ Coalition government under Howard from later in the 1990s (Broomhill 2008a, 233). Broomhill’s view on policy effectiveness is not necessarily shared by others, this is considered below.

The Banana Republic

Paul Keating’s iconoclastic and vivid ‘banana republic’ reference was to echo for decades (Bramston 2017, 264). It was not a premeditated political statement; it was a very Keatingesque use of language to articulate what he saw as a most pressing issue of policy priority. In Keating’s own words:

I blurted out the comment to John Laws from a telephone in a kitchen of a reception centre just outside Melbourne. With the clatter of pots and pans behind me I warned that if we didn’t address the fundamental problems, we risked becoming a banana republic. It was not at all premeditated, I simply couldn’t keep the truth of it in. (Quoted in (O’Brien 2015, 242))

Paul Keating had said:

I get the clear feeling that we must let Australians know truthfully, honestly, earnestly just what sort of international hole Australia is in. It’s the price of our commodities. They’re as bad in real terms as they were in the Depression. That’s a fact of Australian life now. It’s got nothing to do with the government. It’s the price of commodities on world markets but it means an internal economic adjustment, and if we don’t make it now we never will make it. If this Government cannot get the adjustment, get manufacturing going again, and keep moderate wage outcomes and a sensible economic policy, then Australia is basically done for. We will end up being a third-rate economy. (Paul Keating speaking to John Laws on Radio 2GB, 14 May 1986, as quoted in O’Brien (2015, 236–37))

The reference to Australia becoming a banana republic came when Keating was pushed by the interviewer, John Laws. According to O'Brien (2015, 236), Keating had been talking about trade deficit issues for months, then in May 1986 the latest figures were issued, "showing another unexpectedly sharp rise." But there was not the consensus between Keating and Hawke over this issue that there had been over the float three years earlier. In the intervening years there had been disagreements, notably tax reform in 1985, but this time policy priorities were diverging. So, Keating's target audience included Hawke and the Labor caucus.

To Paul Keating, many of his fellow ministers were not responding sufficiently to the exogenous forces that were impacting terms-of-trade and reducing national income. This was counter to a briefing that Hawke (1994, 369–74) was giving around the same time in far less pessimistic terms. In an interview with O'Brien (2015, 242) Keating reflected that, "the prevailing economic orthodoxy demanded more remedial changes through the budget process." Keating (*ibid.*, 248) referenced some of the other radical changes that had taken place in 1985 with tax reform and spending restraints, a tightening of policy boundary lines that started to impact political will, so that, "In the end Bob and most of the cabinet didn't have the heart for the remedial shift needed to deal with the terms of trade. It was too hard", being a classic Tinbergen political 'defence line', with front-line politicians resisting what could be electorally impactful policies in the context of what they believed defence lines would permit. This period sees Hawke and Keating operating at the very limit of the policy autonomy they had re-set when they came to power, but with the risk that it could be about to contract again, in Edwards' words referring to Keating, "In 1986, however, he would discover that the Australian economy still had tricks up its sleeve."

The structural flaws with terms-of-trade and the current account remained an issue for Keating, the latter largely of his own making, which is considered below. In reality the real weak point for economic management, following the float, was the failure to recognise the need to transition from current account management to managing Australia's inflation relative to other countries and the consequential impact on market confidence and the value of the dollar. This misplaced policy focus was not recognised until the end of the decade and led to a period of ineffective policy and impacted policy autonomy, which is considered next.

[The Pitchford Thesis and the Current Account Issue](#)

Following the float in 1983 the conventional wisdom within government and its agencies, including the RBA, was that active management of the current account needed to remain an objective of policy, "it would take policymakers some time to appreciate the new rules of the game

in international commerce” and that the float made the external balance irrelevant (Millmow 2019, 191).

However, this realisation was long in coming so during the rest of the decade, deflationary monetary and fiscal policies were turned on and off in an attempt to bring the current account under control—the origins of Johnston’s period of policy *ad hocery* (Bell 2004, 45). The ramifications were felt with the economic crisis in 1986, “getting the balance of payments under control – lest we become a ‘banana republic’ because of our high borrowing, high debt ways – was the only game in town. It was at the centre of then treasurer Paul Keating’s absolute grip on the political and economic debates” (Tingle 2023). And according to Edwards (1996, 302), “The roots of the recession of 1990 and 1991” were a product of Keating’s current account policies from 1986, it was “a problem that Keating had defined”. But was it a problem in reality?

In 1989, Professor Pitchford (1989) of ANU, posed a simple yet fundamental question, were current account deficits truly a problem under a floating exchange rate and therefore should they be a focus of policy. In essence Pitchford argued:

...that (a) the current account deficit is the result of private capital inflow to finance productive investment which can be expected to yield a sufficient return to meet debt service; (b) even if spontaneous capital inflow were insufficient to finance the current account deficit, this would present no problem under the present floating exchange regime because [currency] depreciation would restore external balance; (c) external balance therefore is an inappropriate target for macroeconomic policy. (Arndt 1989, 1)

According to Tingle (2023) a debate raged between scholars, with Paul Keating pitching in, and John Phillips of the RBA “spectacularly blasphemed in a speech in which he said monetary policy was ‘not an effective weapon in fighting the balance of payments problem’”. However, the:

...recession ‘we had to have’ [of 1990-91] to break the back of inflation; a move to the prime ministership for Paul Keating; and a shift in the way the RBA conveyed its messages on monetary policy under then Governor Bernie Fraser all paved the way for the eventual quiet dumping of the balance of payments as a key determinant for setting monetary policy. (ibid.)

In Pitchford’s (1989, 13), “concluding remarks” he ponders on the origin of policymakers’ preoccupation with the external balance, “Can it be possible that current account deficits and surpluses are largely the outcome of the historical accidents which resulted in national boundaries?”. Also, Machlup (1950) some forty years earlier, had downplayed balance of payments as an accounting exercise that was clouding more fundamental policy choices. With the external balance ceasing to be a component of Swan’s ‘political algebra’ it removed one of Tinbergen’s policy boundary conditions and restraints on policy autonomy.

In terms of this thesis, the external balance issue created boundary lines during the Bretton Woods era as the RBA was required to proactively manage reserves. Following the end of Bretton Woods and before the float, the government's decision to adjust the exchange rate peg to establish some form of policy autonomy created an artificial environment that attracted speculative forces, disrupted economic management and to some extent sustained Australia's uncompetitiveness when the dollar was deliberately overvalued. Following the float, one of its core benefits, that of the market funding the external balance had not been fully comprehended, so with old habits persisting policy boundary lines remained unnecessarily constricted. It would take another decade from the float for the external balance to cease to be an object of policy priority, with the consequential re-setting of boundary lines and expanding of policy autonomy (Nevile 1997, 274; Millmow 2019, 229-30).

2.3 Summary & Conclusion for Part 2

Ann Nevile (1997, 274) describes the 1980s as: “...*the decade when Australia's financial system changed from a highly regulated system to a system with few quantitative or qualitative controls, a freely floating exchange rate and a deficit fully financed by the market.*”

Drawing upon Tinbergen's work, policy autonomy is delineated by policy boundary conditions and defence lines, which I synthesise into 'boundary lines'. One can think of policymakers working within these boundaries where they have 'permission'. However, these boundaries are often in a state of flux, with exogenous forces or events pushing against them to narrow policy choices or even impact the effectiveness of policy instruments. Likewise endogenous actions may be pushing out to extend policy options or defend policy boundary lines from exogenous forces to meet political-economic objectives, and endogenous tensions within government will impact Tinbergen's defence lines. These boundary movements may constrict or increase policy autonomy.

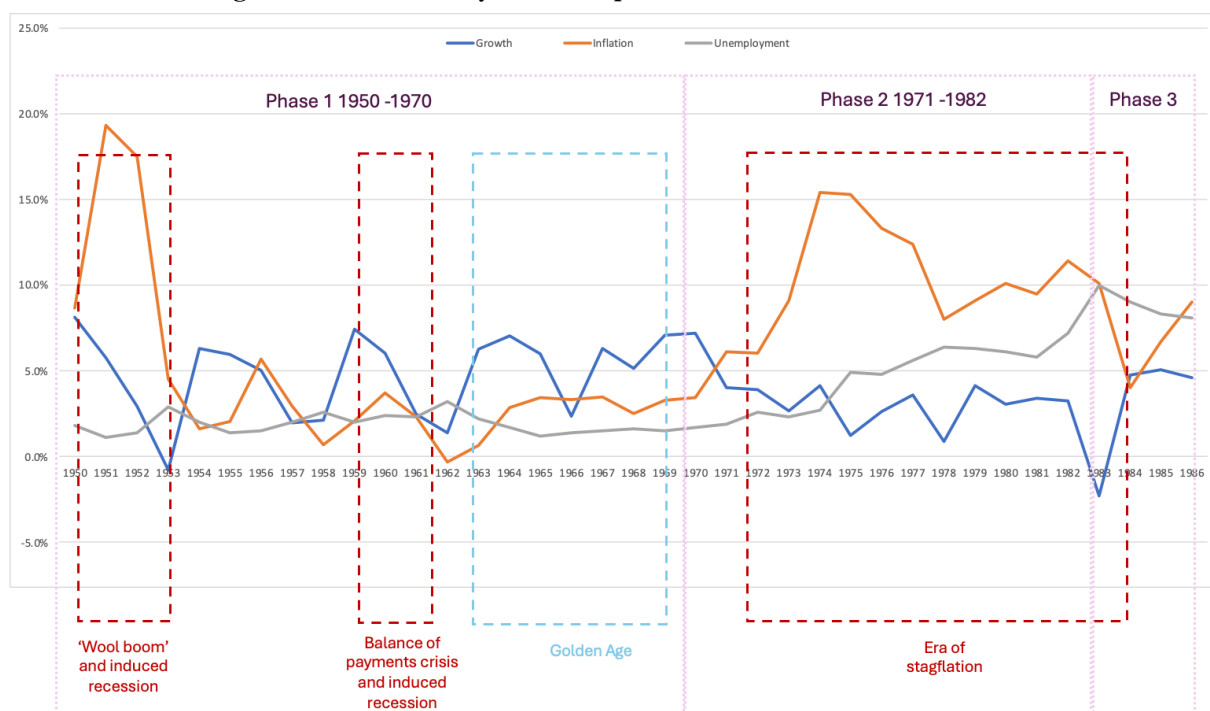
Regarding the issue of *perceived* policy autonomy, where does government perceive itself to be relative to the boundary conditions, defence lines and permissions. The perception may be different to reality, but it will have a critical impact on policymaking effectiveness. And the reverse is true, policymaking effectiveness requires an understanding of the degree of policy autonomy available as defined by the policy boundary lines. Furthermore, ineffective policy may impact perceptions of policy autonomy. In this summary I aim to contextualise Australian policy autonomy over the postwar period to 1986, within the framework of the thesis-lens.

Australia, in the postwar period to 1986, went through three phases of political-economic change. Firstly, the immediate postwar period to the late 1960s witnessed ‘nation-building’ and the establishment of a ‘Fordist’ economy, with Australia riding the wave of sometimes turbulent economic growth during global market reconstruction, followed by a relatively stable ‘golden age’. Most economies prospered during this time, but the rates and nature of economic change differed between economies, a situation that would create political-economic tensions by the 1970s as US deficits and recessionary forces bit, and the balance of economic power shifted. Australia’s strong economic performance in the 1960s, driven by trade and the industrialisation of the economy in the 1950s, allowed the Coalition to operate well within policy boundary lines and not challenge the ‘defensive’ political and policy mentality, effectively consigning future economic development to one of a *potential* banana republic, to draw from Paul Keating’s metaphor. During this period policy autonomy was rarely doubted because it was not challenged. Adopting the thesis-lens the period from Chifley to the height of the Fordist era in the mid-1960s, could be seen as one of *proactive* economic strategy supported by a cross-party non-partisan political mandate, but within policy boundary lines effectively set by the Chifley government in the late 1940s. However, as the 1960s progressed those *proactive* political-economic strategies started to lose their effectiveness, so by the end of that decade Australia’s economic base was weakening with policy options narrowing, resulting in many *reactive* policies during the 1970s most of which were *negatively reactive*, in that they failed to restore meaningful policy autonomy—the ‘Whitlam reversal’ and the Fraser government’s dire performance illustrate the point.

The second phase, the 1970s, was the start of the ‘shock’ for Australia as it had not sustainably capitalised on its postwar boom. Whilst it had adopted a ‘Fordist’ strategy of industrialisation and mass consumption in the 1950s and 1960s, its competitiveness and choice of new industries were challenged despite its defensive policies. Ultimately the newly minted manufacturing sector would decline, and worst still primary industries such as wool, some food commodities and resources would find themselves competing with new suppliers or being locked out of trading blocs. This resulted in Australia increasing its focus on East Asia where new markets were opening. The end of the Bretton Woods system, the first oil shock, global recessionary forces, and increased competition created a new economic paradigm when compared to the relative stability of the 1960s. Australia, as well as many other nation-states, struggled to adapt to the new paradigm of stagflation, with policymakers entering a period of conflicting, inconsistent and stop-go policy structures. With poor economic performance and ineffective policies came a constricting of boundary lines leading to a narrowing of policy autonomy, both real and perceived. The upshot was a move within government to understand the changing financial construct of the Australian economy; this became the Campbell Report a ‘road-map’ that would in due course contribute to

re-establishing policy autonomy within a new global economic paradigm. Once again adopting the thesis-lens, and as noted above, this is a *reactive* period. Exogenous forces and events, such as the end of Bretton Woods, the oil shocks, and stagflation provided little scope for *proactive* policies. The switch to monetarism was a reaction to events but cannot be seen as *positively reactive* in that it did not palpably impact policy autonomy. And the Fraser government had the opportunity to present a *positively reactive* policy change by implementing recommendations in the Campbell Report, but it chose not to do so. The outcome of the Fraser government years, to quote Kelly (2008, 37–38), was that it left the economy in worst shape in 1983 than it found in 1975.

Figure 9 – Australian key economic performance indicators 1950-1986



Sources:
 Economic data: Ville and Withers (2015, 555–94)
 Exchange rates: RBA, // www.rba.gov.au/statistics/historical-data.htm#exchange-rates

The third phase, effectively the first two terms of the Hawke government, saw a clear demonstration of policy autonomy—but unlike the 1960s, the government was pushing out the boundaries, with permission, to create policy autonomy over new policy terrain. Firstly, with the establishment of the Accord to address wage inflation; then the transition from an intended Keynesian expansionist program to one closer to market focused goals to address the inherited economic context (the budget deficit blow-out); and, then with the change in monetary policy to address the currency crisis of 1983 and the subsequent liberalisation of the financial sector—all to stabilise the economy and promote growth (see Part 3). Applying the thesis-lens, this period shows an opportunist exercise in political power, a series of *positively reactive* economic policies (the Accord, the float and liberalisation of the financial sector) and *proactive* policies (such as occupational

superannuation and the introduction of foreign retail banks), being a demonstration of extended policy boundary lines and increased policy autonomy.

I ended the third phase with Keating's banana republic reference, a vivid metaphor to awaken Australia and his colleagues to the fact that it was potential prey to economic forces that had been growing for some time, akin to the 'boiling-frog' syndrome, driven by a structural imbalance in the productive base of the economy, and as measured by the growing current account deficit and reliance on foreign debt driven by consistently worsening terms-of-trade. A problem that Pitchford argued was based on outdated methodological thinking. The world had changed but Australia had not, and worse than that, Australia could lose its hard-won policy autonomy. Keating's statement is a *positive reaction* to maintaining policy autonomy in the face of exogenous forces—epitomised by chronic terms-of-trade and the currency crisis of the mid-1980s. It heralded a new era, albeit one that may have been anathema to the Labor party of the day—one that sought to rebalance the relationship between the economy and social equity, by realigning boundary lines relative to both explicit exogenous forces and the changed context of Australian political-economy so as to maintain policy autonomy.

PART 3 – 1983: A Demonstration of Endogenous Actions and Tensions

“We busted the balance of payments constraint with the dollar floats and we busted the wage restraint problem with the Accord.”

“Up to 1986 we controlled the agenda and then we did not.”

Quotes from Paul Keating, the first from 1985, the second from 1991, in (Edwards 1996, 287)

In Part 3 of the thesis, I focus on the endogenous actions and tensions leading to the float of the Australian dollar in December 1983. My intent is to provide insight into the interplay between government and the bureaucracy, against a backdrop of disruptive exogenous forces, endogenous tensions, differences of opinion and the policy options, that illustrate Tinbergen’s boundary conditions and defence lines. Far from being a product of exogenous forces and differing ideologies, I contend that the decision to float was an example of *positively reactive* government policy to re-establish policy autonomy and empower the newly elected Labor government. As noted earlier, policy autonomy is not a given, it must be established and maintained through political means—as the events of December 1983 demonstrate.

3.1 The Political-Economic Context of March 1983

On the 3 February 1983 the Coalition Prime Minister, Malcom Fraser, called a general election for the 5 March, with a double dissolution of parliament where 125 House of Representatives and all 64 Senate seats were to be contested. Fraser’s aim was not only to be re-elected but also take control of the Senate, where the balance of power was in the hands of the crossbench. Fraser was seeking absolute control of government (a reaction to his loss of policy autonomy) but had misjudged the sentiment of the nation.

The Coalition lost the election and Bob Hawke, who had been elected as Labor leader on 8 February 1983, achieved a 25-seat majority in the House but like Fraser before him remained dependent upon crossbench support in the Senate. Labor was to retain its control over government for the next 13 years to 1996 and oversee a fundamental transition of Australia’s political-economy.

3.1.1 Exogenous forces

Internationally, this was the Thatcher (1979-90) and Reagan (1981-88) era, it was when the Mitterrand government was forced into a policy ‘U-turn’ from Keynesian expansionism to neoliberal austerity, and saw the demise of many Social Democratic coalitions across northern

Europe (Notermans 1993, 138). The Iranian Revolution of 1979 had triggered the second oil shock that further fuelled inflationary forces that had been building for much of the 1970s—the stagflation era. In the US, it resulted in tight monetary policies, pushing the US into the worst recession since the Great Depression that lingered until late 1982 (Sablik 2013). It was during this time that Paul Volcker, in the face of stiff political opposition, demonstrated the determination to maintain very tight monetary policy to ‘fight inflation first’ at the cost of rising unemployment and reduced growth (the Volcker shock). By October 1982 US inflation had fallen to around 5 percent, and long-run interest rates and unemployment had started to fall. There were similar economic conditions in Britain, Canada, Germany and Japan where interest rates had been increased to dampen inflation. The US and Japan recovered sooner than the rest of the OECD and by 1985 most had recovered. This period marked the accession of monetarist orthodoxy over the Keynesian-synthesis, and the neoliberal agenda was in its ascendancy.

Bongiorno (2015, 41) summed up the wider exogenous forces at play:

The rise of computer technology, the divergent economic performances of major capitalist nations and the growing integration of international capital markets in the 1970s and early 1980s placed even greater pressure on national financial authorities. Speculators were increasingly able to move capital rapidly around the globe and, where opportunities arose, to profit from fluctuations in exchange rates – which effectively became one-way bets on currency movements.

The Australian dollar had become an increasingly attractive ‘one-way bet’ following its switch to a crawling peg in November 1976. There had been a global disturbance to capital flows due to uncertainty over the value of the US dollar, traders were looking for ‘insurance’ against the US dollar’s weakness by moving into other currencies, this included the Australian dollar. This “speculation was being channelled through the [Australian] trading banks via loopholes in the regulations (primarily the working capital provisions but also via the leads and lags in the trading contracts)” (McCarthy and Taylor 1995, 224).

Secretary of the Australian Treasury, John Stone, recalled of that time:

...as Labor came to office in March 1983, the international monetary situation was undergoing great change. The US inflation rate was declining fast: from 9.1 percent in 1980 it fell to 3.8 percent in 1983. In Australia, by contrast, it was much higher and still rising, from 9.4 percent in 1980-81 to 11.5 percent in 1982-83. What was going on?. (Stone 2012a, 16)

Stone pointed the finger at the 23 percent increase in the hourly wage rate, an award secured by the Amalgamated Metal Workers’ Union in 1981, that was transmitted across the whole award structure by ACAC. Stone (ibid.) concluded, “By early 1983 our inflation rate, as well as our interest rates and our unemployment rate, were rising fast” going in the opposite direction to most other OECD members.

Pauly (1987, 4–5) considered the increasingly porous nature of international financial boundaries with the expansion and transformation of financial markets. Whilst control of capital movements had been a fundamental element of the Bretton Woods system, this component of the postwar system had been undermined by the institutional changes that permitted increased capital mobility with the ultimate impact being the unsustainability of the fixed exchange rate system. As Pauly (*ibid.*) argued:

By the 1980s no country of the OECD retained unquestioned control over its domestic monetary base and the reality of the financial interdependence appeared undeniable. Resulting pressures on domestic policies appeared most evident in such areas as exchange controls, and here Australia was no exception.

The RBA's ability to defend the fixed currency value weakened from the mid-1970s. The exchange rate was announced each morning and initially there was little movement allowing longer-run balance of payments adjustments, but by the end of the decade the frequency of change was growing, driven by the constant and relentless movements in the New York, London and Tokyo markets (Bryan and Rafferty 1999, 127).

Mervyn Phillips, the Deputy Governor of the RBA, summed up the financial forces that were at play and their impact, "In the ten years between, say, 1973 and 1983, we saw a period of rapid and wide-ranging innovation in financial markets, perhaps to a greater extent than in any previous decade" (Phillips 1984, 132). That decade witnessed the predatory transition of the currency hedge and futures markets, driven by the voracious appetite of the international merchant banks, and "as a result of our exchange rate management system, Australia had elected, not necessarily consciously, to take the world's financial volatility rather less on the exchange rate and rather more on domestic financial conditions and domestic interest rates" (*ibid.*). The exchange rate management system and its consequences were to feature in the policy strategy debates between the new Treasurer, Paul Keating and RBA Governor, Bob Johnston in the early days of the Hawke government. This is covered in 3.2.

To sum up, the new Labor government was about to contend with an array of exogenous forces that impacted multiple boundary lines, some which were clearly overt such as the currency speculation of March 1983, but others which were more subtle, more covert, such as the ideological defence lines of the Treasury that resisted aspects of Labor's agenda. Other forces responded to Australia's competitive position in the globalising economy and impacted foreign direct investment and the sustainability of the Fordist construct that underpinned the 'nation-building' of earlier decades. Economic conditions that would require a re-setting of boundary lines to re-establish the degree of policy autonomy that the new Labor government required to meet its

reform and reconstruction agenda, the first step would be to win ‘permission’ by gaining the confidence of these non-elected actors, notably the currency markets, that had Australia in their cross-hairs.

3.1.2 The domestic economic legacy

“They were inheriting a bloody mess.”
Quote by John Stone (Bramston 2017, 195)

The last year of the Fraser government witnessed the worst recession since the Great Depression and, “in many ways the early years of the decade were a continuation of the policies and problems of the 1970s” (Grenville 1990), with poorly executed monetary policy and excessive wage claims, however this time Australia was impacted by the exogenous shock of a global recession. O’Brien (2015, 129), wrote of the period, “Labor was inheriting a daunting economic trifecta—double-digit inflation, double-digit unemployment and high wages, with a serious terms-of-trade decline in the pipeline and a 50 percent larger than expected budget deficit. Interest rates were also in double figures.” Paul Keating, in an interview with O’Brien (2015, 132), stated:

Recovery from recession was the immediate problem...Australia’s terms of trade had been dropping since about the time Menzies retired in 1966...Government spending had gone from 23 to 30 percent of GDP through the Whitlam and Fraser years...the profit share was smashed to pieces, and investment had fallen through the floor.

And despite an almost uninterrupted run of Coalition governments from 1950 to 1983:

Australia...[remained] a managed economy with a managed exchange rate—the government set interest rates, with a centralised wage-fixing system in which the government had a heavy role. [A far cry from] ... the needs of a modern mixed economy, certainly the kind of market-oriented economy I had in mind. (Paul Keating quoted in (O’Brien 2015, 136))

The question for Hawke and Keating was, could the new Labor government extend policy boundary lines to introduce innovative new policy—was there the permission, the policy autonomy, to re-direct the economy? The election campaigning in February and early March had demonstrated a level of opposition in the media and the financial markets to a Labor government that bordered on fear-mongering suggesting a return to the ‘chaos’ of the Whitlam years that translated into significant and potentially undermining capital flight. Labor would be tested on day-one, and its immediate objective would be to gain trust and win permission from those exogenous forces that manned the defence lines. Only by gaining permission could boundary lines be re-set and the necessary policy autonomy established to execute policy. As it transpired, Labor’s actions in the first week of government with the meaningful devaluation and its response to discovering the inherited budget deficit blow-out began the process of successfully winning trust and permission, that was further reinforced by the politically astute way Hawke launched the Accord and Keating managed the lead up to the float.

3.1.3 Monetary targeting by 1983

Monetarism and monetary targeting had been introduced by the Fraser government as the core instrument of monetary policy in 1976. Bell (2004, 35) believed, “The arrival of monetarism gave new prominence to the role of monetary policy, unmatched in the post-war history of macroeconomic policy.” But as Guttman (2005) asserted, as a measure to control inflation its effectiveness was questionable as monetary targets were seldom achieved, and simplistic definitions of monetary supply proved inappropriate in practice. By the last term of the Fraser government the ideological allure of monetarism and monetary targeting had worn thin. Guttman (2005, 178) argued:

...it would appear that at the time of Howard's 1982 Budget speech, Treasury was cognisant of, and moreover accepted, the arguments in favour of discontinuing monetary projections. As continued financial deregulation (the removal of regulatory constraints on the banks) and financial innovation (the development of new financial products) complicated the interpretation of the monetary aggregates, it became harder to justify setting projections.

However, despite the practical issues of effectively setting and achieving monetary targets, the international financial markets and those politicians, academics and ideological lobbyists with a more neoliberal persuasion saw monetary targeting as a proxy for economic rationalism or ‘rules based’ monetary policy (Bell 2004, 35), in other words a disciplined conservative government. In addition, as it was still being used as a policy instrument in the US and UK it would have been a bold move for Australia, an early adopter of monetarism, to drop it given there was no accepted alternative at the time. As a consequence, in Guttman’s view (2005, 178) the, “Treasury's support for monetary projections [remained] firm in 1983...It is also possible that Treasury saw the [monetary] projection as a useful discipline on the Labor government's economic approach, especially given the department's view of the Accord.” Which was dismissive, given the “Treasury’s hostility to incomes policies” (*ibid.*, 172), that reflected its rationalist market preferences.

Even before the new Labor government took power in March 1983 the Australian dollar was under speculative stress, with significant capital outflows triggered by mischievous electioneering from the Coalition, which led to a 10 percent devaluation within a few days of the election result. So, from day-one the Labor government and particularly the new treasurer, Paul Keating, were acutely aware of the need to keep the international financial markets ‘on-side’, “Every major policy decision became subject to the test: how would the markets react?” (*ibid.*, 162). In addition to the currency crisis of March 1983 the incoming government was faced with a dramatic forecast blow-out of the 1983/4 budget, a fact that had been hidden by the departing Fraser government. So, with this background and the Treasury and Reserve Bank continuing to support the role of

monetary targeting as a policy tool, despite its flaws, it is little wonder that Hawke and Keating left monetary targeting alone, as they had more pressing issues with which to contend.

By the time the Hawke government dropped monetary targeting in January 1985 its effectiveness had been further clouded by the floating currency and financial market deregulation. In addition the government had established its economic management credentials and had been re-elected for a second term—it had secured ‘permission’ to extend policy boundary lines to implement its broader range of policies. Any need to maintain monetary targeting due to the defence line of market ideology had abated. Another defence line had also been removed in September 1984 when Stone, Secretary to the Treasury, retired and was replaced by Bernie Fraser, notwithstanding that by this time the RBA had a strong grip on monetary policy management and had promoted ending monetary targeting (Guttman 2005).

With formal monetary targeting discontinued it still left the government without a meaningfully effective monetary policy instrument for the floating exchange rate era and liberalised exchange market—which was a risk when proactive policy was a key element in preserving policy autonomy. The Reserve Bank, now firmly the ‘custodian’ of monetary policy in place of the Treasury, began its hunt “into the policy wilderness” (Bell 2004, 42) for that effective instrument. Initially the RBA adopted a ‘checklist’ approach that assessed monetary aggregates, interest rates, and exchange rates (Banuri and Schor 1992a, 126), it would take until the end of the decade for the cash-rate (the overnight interest rate) to become ‘that effective instrument’ (Battellino, Broadbent, and Lowe 2017, 147–48). It provided a singular clarity, when compared to the policy chaos of the late 1970s, with which government could enact monetary policy in a floating environment and re-set boundary lines relative to political-economic conditions.

3.1.4 The new Labor government of March 1983

Bell (2004, 39) believed the electorate embraced “Labor’s new broom”, which:

...boldly promised to stimulate the economy through a broadly expansionary fiscal and monetary policy, and *simultaneously* to deal with inflation through a policy of wages restraint through consultation and bargaining with the unions. This deal was embodied in the 1983 Accord and subsequent revisions. Corporatist wages policy had arrived in Australia. (Italics added acknowledging the interlocking nature of policy strategy).

Guttman (2005, 233) argued that the new Labor government was anxious not to be seen as a re-run of the discredited Whitlam government. So despite its scepticism of monetarism, that Keating (1989) later called a “failed dogma”, Hawke and Keating understood they needed to present a front of policy discipline. And as it transpired, the Coalition’s projected 1983/4 budget deficit blow-out limited the Hawke government’s ability to adopt all of its pre-election promises, some

programs were reigned back so as not to exceed the blow-out figure, but Labor still had plenty of scope to enact many of its policies and politically it would benefit from the Keynesian deficit boost orchestrated by the Coalition—which placated the Labor caucus. The reality was that the Coalition had provided Labor with scope to provide a significant deficit boost that ordinarily would have been deemed irresponsible by the financial markets. From the outside, exogenous forces saw the capping of Labor’s spending within the inherited budget blow-out as a *virtuous* response using Helleiner’s term, that built credibility with the financial markets and gained *permission* to extend policy boundary lines and increase policy autonomy.

Within two-months of being elected the Accord had become the palpable centrepiece of policy, with resolving the recession the clear goal, and there was little evidence that radical financial sector reform was on the immediate agenda. “But as would often prove to be the case with this government, outward appearances were deceptive: Hawke, Keating and their key economic advisers were interested in what a less regulated financial system could do for a sclerotic economy” (Bongiorno 2015, 40).

3.2 The 1983 Political-Economic Transition

In this section of the thesis, I aim to demonstrate the endogenous dynamics at play that led to the float of the Australian dollar and financial market liberalisation in December 1983. If it was on any agenda at the time Hawke took office it had not been a priority. A close analysis of this turning point allows for a detailed examination of how exogenous forces constrain political actors in making economic policies, and how, in certain circumstances, they can respond to expand the scope for their own initiative.

As noted, the economic context the new government faced necessitated a change of plan and policy. I believe this is a strong illustration of the thesis. Policy autonomy, as has been described, is defined by lines of resistance—boundary lines. These boundaries are set through an interaction of forces, actions and permissions, both endogenous and exogenous. Some boundaries are obvious, such as the Labor caucus’s resistance to market liberalisation or reducing social programs, whereas others have to be tested (i.e., how far can we push?), an example being at what point will financial markets react adversely to an increase in a budget deficit, or at what point will a rationalist Treasury acquiesce to the policies advocated by the Labor government. The key to the argument is that boundaries are not static and a smart government will see its opportunity to create new effective policy, that may extend existing boundary lines and expand the scope of policy autonomy.

It is a constant process, and the Hawke government in 1983 was deft at recognising and exploiting this. As the events below show, the Hawke government navigated its way to establish control whilst other forces, such as the currency markets were an almost constant distraction, and some public servants in Treasury verged on being a dogmatic, if not wilful, barrier. I argue that the Hawke government rather than being forced by the markets to execute the float, took advantage of the currency market activity to deliver the float which would both extend policy autonomy and limit the destabilising power of the currency speculators as the government established control. They also went a step further by changing regulations over the financial markets that they believed would have both a beneficial impact on the supply of capital and finance within the economy and reduce the oligopoly powers of the existing retail banks. Thus, further expanding the boundaries of policy autonomy. This was in marked contrast to the achievements of the preceding Coalition governments that appeared hamstrung by more constrained policy autonomy boundaries, often of their own making.

3.2.1 Key endogenous actions and tensions from election day to the float

In this section is a more detailed examination of the endogenous actions of the Labor government from March to December 1983 to highlight how it seized opportunities as they arose to re-set boundary lines and establish policy autonomy to enable their political agenda. It is a mix of *positively reactive* actions to establish trust and ‘permissions’ from exogenous forces to remove defence lines, and of political skill and judgement in deploying *proactive* policy.

By December, within nine-months of being elected: the Hawke government had established the Accord strategy to manage inflation and stimulate growth and employment; it had taken the disruptive sting out of the speculative currency traders with the float and market liberalisation; it was presenting an ideological position that was not seen as a threat or risk by exogenous neoliberal forces; it had re-shaped the inherited budget deficit blow-out to accommodate key areas of its social policy; and it had diluted the influence of Treasury over policy strategy and enabled the rise in influence of the RBA. This was not a government under the thumb of exogenous market forces.

March 1983 – the post-election exogenous shock

In its attempt to be re-elected, the Coalition had conducted a “scaremongering campaign” that a Labor government would be irresponsible economic managers, who would undermine the banking system and peoples’ savings (Bongiorno 2015, 41). The 2nd March editorial of the *Australian Financial Review* promoted that fear:

Let there be no mistake. The Labor Party's policy does include greater regulation of the banks...and of the non-bank financial intermediaries...This is the inevitable result of expansionism with little attention to inflation, to capital outflows and currency fears.

In the three weeks prior to the election an ideologically driven adverse market reaction drove an estimated \$3 billion outflow, representing around 3.5 percent of the money supply when the annual monetary growth target was 9 to 11 percent—this outflow had serious consequences for the management of monetary policy.

In the late evening of Saturday 5 March the election was called for Labor. The following afternoon Hawke, Keating and their aides met with Treasury secretary Stone and deputy secretary Rye. “This was a critical meeting that would shape the politics and policies of much of the next decade” (Bramston 2017, 194). The Treasury officials presented a briefing book that had been prepared before the election. “‘They were inheriting a bloody mess,’ recalled Stone”, the budget deficit for 1983/4 was forecast to blow-out substantially to \$9.6 billion (a postwar high of around 5 percent of GDP (O’Brien 2015, 139)), and Fraser and Howard had “withheld news of the projected figure from voters” (Bramston 2017, 195). Stone, in an interview with Bramston in 2015 added, “Hawke and Keating could hardly believe their luck” (ibid.). According to Banuri and Schor (1992a, 123), “this allowed Labor both to cut the planned increase in the deficit [as it was forecast to blow-out regardless] and still to run an extremely expansionary fiscal policy.” It would present them on ‘day-one’ as more competent economic managers than the Coalition—a significant early political ‘win’.

However, Stone also informed Hawke and Keating of the significant and constant capital flight since the election had been called. To stem further outflows Stone was advising a devaluation of 5 percent, but the RBA was arguing for 10 percent—a differential that reflected the differing defence lines, with Treasury still seeking an overvalued currency. Paul Keating reflected:

...we were sitting there only hours after winning government, getting a whole new picture on the state of the economy and at the same time having to decide on a quite significant devaluation of the dollar...It was just pretty obvious that the rate had to go down, but the decision to move in a discrete and large way by ten percentage points meant that the old authority of the calibrated crawling peg system was largely blown away. We were acceding to market pressure, and a consequence of that accession was the destruction of the crawling peg adjustment system we'd been regulating and relying upon for years. Quoted in (O'Brien 2015, 133–34)

On the first day of trading after the election a further \$200 million left the country. Later that day, Monday 7 March, the decision was made by Hawke and Keating to announce a 10 percent devaluation, “and by the week's end around \$3 billion had returned” (Bramston 2017, 195). Banuri and Schor (1992a, 118) commented, “The March devaluation, therefore, seems a classic case of a devaluation forced by market expectations of possible adverse effects (on inflation in particular) of the Labor Government being elected.” In terms of the thesis the devaluation can be seen as

positively reactive, in that it created a window of policy autonomy for the incoming government, notwithstanding it demonstrated the power of the international currency markets that would be unrelenting over the next nine months.

However, it was telling that the government chose a devaluation of 10 percent, not the Treasury's preferred 5 percent. This was the first break with the Treasury's position—its defence line. Its implications were highly strategic, Kelly (2008, 81) cited an interview with the RBA Governor Bob Johnston, who saw the 10 percent devaluation as the “death-knock” to the existing crawling peg system that lay at the heart of Treasury's management of the currency, and that a float was now inevitable. What ensued over the course of 1983 Bongiorno (2015, 41) described as, “a cat-and-mouse game in which, to the extent that the exchange controls permitted, speculators sought to profit at the expense of the Reserve Bank...by anticipating the exchange rate decisions of the authorities.” This created constant destabilising exogenous pressure on government at a time they were seeking to establish their political-economic credentials.

Bongiorno (2015, 41) observed, “the currency crisis that greeted the new government in March 1983 and resulted in devaluation appears to have played a decisive role in convincing many, although...not all, of the key players that the old system was finished”. Quite clearly, the new Labor government would not be able to govern if it was both looking over its shoulder and had at least one hand tied behind its back—it had to adjust to the new ‘rules of the game’, the power of the international currency markets and Australia's position within it, not outside it.

On the second working day of the new government, Hawke and Keating conducted a joint press conference announcing both the devaluation and the inherited budget deficit blow-out—a product of the Coalition's economic mis-management—which would require re-setting Labor's policies. According to Bramston (2017, 195), “It was...an opportunity to junk some of Labor's election policies and begin a program of fiscal consolidation”. A message that would start the process of calming the markets and gaining ‘permission’ to re-set boundary lines.

The same day, at the first formal meeting of Keating with the RBA, the Bank delivered the following dire view of the economy. It painted a picture of exogenous forces and events that were constraining policy options and constricting policy autonomy for the fledgling government:

The economy has been hit hard from several directions. The persistent world-wide recession, associated adverse movements in our terms of trade and the severe drought have all reduced our earning capacity. Against this background, increases in real wages have exceeded the capacity of the economy to pay while maintaining employment. The budget deficit has increased sharply and (on current policies) seems set to blow-out very considerably in 1983-84.

In these conditions, industry has been shedding workers at a rate unparalleled in the post-war period. Despite efforts to cut costs, company profitability is very low. Low profits, excess capacity and uncertain prospects will be powerful in restraining influences on business fixed investment for some time. Indeed, in many cases the issue for companies is survival. The resulting strong levels of competition should work towards a noticeable slowing of inflation during 1983. With world inflation slowing, it is the more pressing to get Australia's inflation down to facilitate recovery. (Quoted in Bramston (2017, 196))

It would take great clarity of policy strategy to re-set boundary lines and re-establish business confidence and win the support of the financial markets. The nature of Labor's public response to the inherited budget deficit blow-out (by signalling a revision to its strategy) and the currency crisis (with the 10 percent devaluation), led to the consequential reversal of capital flows—a signal that exogenous 'permission' to re-set boundaries was achievable.

That same week, Keating and Johnston discussed the option of floating the dollar. "Johnston told Keating that he thought a floating exchange rate was desirable and inevitable. 'I think it is a waste of time, really, what we are doing,' he replied [to Keating's questioning]. 'We are a big enough economy now, and strong enough on the monetary front for the rate to set itself'" quoted in Bramston (2017, 197). P.D. Jonson, head of research at the RBA at the time of the float, reflected on the appetite for a float within the Bank noting, "there was at least a decade of research and careful analysis behind the Reserve Bank's position in early 1983" (Jonson 2012, 56).

It was also at this meeting that what came to be known as the Martin Committee was discussed, as Keating was planning a review of the Campbell Committee's recommendations. Bramston (2017, 197) describes the political intent:

Keating and Hawke had offered broad support for the Campbell inquiry when shadow cabinet had considered it in 1981. 'I wanted to open up and deregulate the financial markets, product markets, and the labour market,' Keating recalled [in 2016]. 'Campbell was the road map to the financial markets. The Martin report gave me a storyline to take to the caucus...I turned the banks from being rationers of credit to creators of credit'.

This is evidence that the Hawke government were positioning themselves in their first week of office for a strategic change of direction to be able to enact new policy, to re-set boundary lines and expand policy autonomy for an innovative program, driven by government, not by exogenous forces.

April 1983 – re-opening the Campbell Report and the National Economic Summit

Keating, in an interview with Ross Gittins, announced the intent to set up the Martin Committee to "revise the Campbell recommendations around financial deregulation...Since you can't have flexible financial markets alongside a rigid exchange rate, I was really telling Gittins we were

heading for an open financial economy and, by implication, a market-determined exchange rate” Paul Keating quoted in O’Brien (2015, 149). “The appointment of the Martin-led review group was one of the most important decisions Keating made as treasurer” (Bramston 2017, 204). The press release at the time stated, the Martin Committee would “take account of the government’s economic and social objectives as well as of the need to improve the efficiency of the financial system”, quoted in Bramston (2017, 206). This intent for financial system reform, when it had been side-lined by the Fraser government only months before, was a significant signal to the financial markets of the liberalising strategy of the new Labor government—it contributed to the building of trust between the financial markets and Labor and the eventual re-setting of boundary lines. The Martin Committee was a construct to appease party opposition to the Campbell Report, which became a ‘road-map’ acceptable to the Labor caucus shedding its association with the Coalition. “The implementation of the review group’s recommendations would be far reaching for the economy, and would fundamentally challenge Labor orthodoxy”, but were ostensibly a re-hash of the Campbell report (Bramston 2017, 206)—an example of endogenous defence lines within caucus being re-set.

Within a month of being elected Labor hosted the National Economic Summit, with federal and state governments, unions and industry leaders attending, to ‘agree’ the Accord. It was a palpable way to gain ‘permission’ from capital and labour and shift policy boundary lines giving the new government expanded policy autonomy to simultaneously address inflation, employment and growth with the support of all stakeholders. A significant feat that the Coalition had failed to achieve and gaining Labor further political capital as it provided a clear strategy forward when compared to the haphazard economic policies of the Coalition in the previous year. Although there was some doubt amongst critics as to the potential effectiveness of the Accord it did galvanise both capital and labour, the business sector and ACTU, and ultimately was deemed effective (Bramston 2017; Edwards 1996).

May to July 1983 – Recasting the plan

In May, Keating issued an economic statement that outlined the new financial realities of the inherited budget deficit blow-out, it recast Labor’s election commitments and made cuts to existing programs. The Labor caucus defence lines were now breached, and the Hawke government was re-setting boundary lines related to market reform into what some regarded as closer to neoliberal territory (figure 8). I argue that they were realigning the Australian economy within the broader global economic context, one that had been shifting since the end of the Bretton Woods system, they were moving Australia out of the sheltered and protected ‘settler’ mindset into one that would

be fully integrated into the global system. The Labor government was becoming both *proactive* in its social programs and *positively reactive* in its monetary strategy.

In June, Hawke and Keating met President Reagan and his team in Washington DC—a key piece of roleplaying to one of the global promoters of neoliberal strategy. Importantly, they also took the opportunity, as quoted by the *Australian Financial Review* of 21st June, to meet ‘Wall Street’ “with one clear intention—to put to rest any fears of the Mitterrand factor.” Mitterrand had faced a currency crisis resulting from his radical policies, and in March 1983 was forced into a fundamental reversal of policy resulting in a politically damaging austerity program (Birch 2021). By June it was clear to observers that the Australian Labor Party were not following a similar script, despite the media scaremongering only three months earlier. Hawke and Keating were showing transparency to win the support of those that had doubted their true intent.

By July speculative capital inflows had become relentlessly volatile and were challenging the RBA’s ability to manage the currency effectively (Edwards 1996, 218). The Bank presented a formal memorandum to Keating outlining its options to restore control. The memorandum (RBA 1983) concluded:

The options available for responding to present volatility include:

- (a) accept it as part of our financial arrangements;
- (b) use direct measures to limit short-term capital flows, to restrict hedge market operations or to control domestic interest rates;
- (c) pay more regard to interest rates in our market operations;
- (d) make larger and/or more frequent adjustments under our present exchange rate system or replace it with a managed float (i.e. a quantity intervention system).

Exogenous speculative forces were continuing to ‘play’ the dollar but the Treasury, under Stone, were reluctant to make any fundamental change to the exchange management system, believing they could ride out the pressures. Also Keating, who believed the float was inevitable, still sought the support of Treasury to show a united front to the markets, and at this stage was not ready to break with the Treasury line on exchange rate management. The government required Treasury’s support on the programs related to the Accord, which was the priority at the time.

August 1983- First Labor budget

The May 1983 economic statement was useful in lowering expectations about spending on new programs and emphasising the need to continue to reduce the budget deficit. Ahead of the presentation of the government’s first budget on 23 August, Keating briefed the caucus, and there was no dissent...The estimated budget deficit for 1983-84 was \$8.36 billion, a cut of more than \$1 billion...the actual deficit, or final budget outcome, came in even lower than estimated, at \$7.96 billion. (Bramston 2017, 203)

The budget statement (1983-84 Budget Paper No.1 1983) made no mention of any potential structural change to the exchange rate system. However, the increasing volatility of the “flows of funds across the exchanges” was considered (1983-84 Budget Paper No.1 1983, 62), as was the interrelationship between the interlocking policies of the Accord, fiscal policy and general monetary policy to allow the government to meet its political-economic objectives. Given the speculative currency forces since devaluation in March (see figure 9), the new Labor government faced a surge in capital inflows that drove up both the money supply and exchange rate—impacting terms-of-trade and export competitiveness, at a time when the government was striving for export led growth. However, the budget statement concluded (*ibid.*), “It would...be a dangerous fallacy to suppose that exchange rate flexibility frees us from the necessity of bringing down our inflation rate.” The government was showing clear direction to the market that it remained focused on price stability and would not be distracted, at least in the short term, by constant capital inflows. It was a question of priorities and trade-offs in the course of re-setting boundaries and extending the government’s policy autonomy to meet its broader goals, but within just nine-months of being in power the government would be able to act on its terms and address the destabilising inflows—it would become a profound demonstration of policy autonomy.

September 1983 – Currency crisis mounts

Currency traders continued to take speculative advantage of an improving Australian economy and a confident budget statement, the RBA (n.d.-a) reported, “during the second half of 1983 capital inflows...began to destabilise monetary policy. (Capital inflows stemmed from a post-drought rebound in economic activity, rising commodity prices and a positive interest rate differential with major economies)”. Bryan and Rafferty (1999, 127–28) described the mechanics of the growing speculative forces in September:

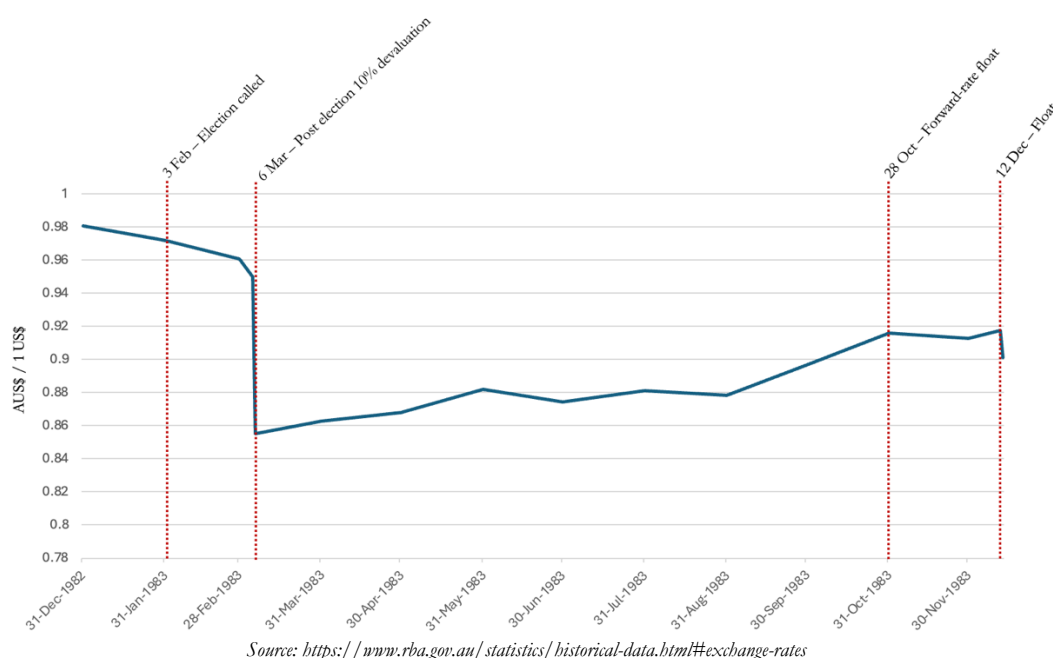
...the ‘fixed’ exchange rate was amended on all but five trading days (RBA Annual Report 1984: 16). Exchange rate setting was shadowing the commercial market and was a fixed rate in name only. Moreover, the RBA’s need to defend currency values, even for 24 hours, created an international market for speculation against the RBA and the ‘fixed’ Australian dollar. Dealers could buy Australian dollars one day, convert them to US dollars, and sell them back to the RBA at a higher rate a day or two later, creating large gains for the speculators and equivalent losses for the RBA.

The internal debate amongst the government, Treasury and RBA about exchange rate management was about to heat up. Bramston (2017, 211) noted, Johnston advised the RBA Board that a float was the preferred option to addressing persistent speculation and exchange rate management. “Johnston had been advising Keating that a further *ad hoc* response to speculative flows—such as [another] devaluation—would likely be ineffective with existing exchange-control arrangements” (*ibid.*). However, Stone retained his dissenting opinion and told Johnston that he “favoured

‘incremental’ change to the system—a view he would maintain” (ibid.). Stone was demonstrating a tough defence line that would put him at odds with Keating’s political-economic agenda.

Given the unrelenting pressure from the currency market Johnston suggested to Keating a float-derivative, a “‘dirty float’ — meaning greater flexibility but with a significant level of central bank intervention” (Bongiorno 2015, 47), but Stone did not accept this approach. Over the following weeks into late October an alternative approach was negotiated between Government, Treasury and RBA, which became a ‘partial or forward-rate float’. It became a compromise since Stone was not convinced that the RBA and the related bureaucracy were prepared for a wholesale change to a full market-based system (O’Brien 2015, 151).

Figure 9 – Australian dollar-US dollar exchange rates 1983



Whilst the details of the ‘partial-float’ were being negotiated Treasury put forward alternative proposals. Edwards (1996, 218-19) noted,

...the float was under active discussion, Treasury was still pressing for a higher fixed rate... Treasury was saying that bond sales – which tended to increase interest rates – were needed to offset money supply increases caused by capital inflow. If the dollar was higher, it was less attractive as a speculative asset, capital inflow would fall, and fewer bonds would need to be sold.

But a higher exchange rate ran counter to the Hawke government’s strategy of stimulating an export led expansion. It was a continuation of the Treasury mind-set to artificially overvalue the dollar, a strategy that was a vestige of an outdated and increasingly ineffective protectionist modus operandi.

In the following month Stone (2012a, 16), following a meeting at the IMF where Volker's monetary policies were a talking point, penned a memo to Keating suggesting importing deflationary forces:

...for more than a decade, we had tried to insulate Australia from the inflationary forces rampaging through the international money markets, that situation was now in process of reversing, and we should now consider whether we should do likewise. Opening up to a disinflationary world would now help our own fight against inflation.

But Stone's singular focus on inflation missed the mark with Hawke and Keating who were seeking *simultaneous* action to address inflation and growth and unemployment, and were relying on the Accord to address inflation, not unpredictable exogenous disinflationary forces.

October 1983 – Responding to the currency crisis and Treasury defence lines

From September into October, there was a further currency crisis with significant speculative inbound capital forcing up the dollar:

So dominant was the international speculation that by the end of October 1983 the value of the dollar was being determined in the evening rather than the morning; the rate which the RBA felt best able to defend was being set with an eye to the overnight (global) foreign exchange markets, not the domestic market. (Bryan and Rafferty 1999, 128)

Despite the continuing debate between Treasury, RBA and Government over the potential for a 'partial-float', Hawke, Keating and their key advisers had concluded that a simple full-float was the most pragmatic solution. But Keating's preference was still to bring Stone along with the decision, as Treasury's support would lend credibility to the still new Labor government. However:

By October 1983 instability in the exchange rate market convinced Keating that he should reconsider his timetable and seize the opportunity presented to him by the speculation against the dollar. (McCarthy and Taylor 1995, 229)

During the month the RBA board met to consider how to reduce disruptive interest rate volatility. According to an internal paper, "interest rate volatility in Australia was higher than in other OECD countries, and exchange rate volatility was correspondingly lower" (Edwards 1996, 219–20). The RBA was highlighting the strategic policy trade-off between the exchange rate and interest rate—shades of the policy trilemma, as discussed above. At this point the interest rate was taking the brunt of speculative forces, with a commensurate impact on the government's plans to reinvigorate domestic private investment, let alone monetary targeting. The need to switch volatility from the interest rate to the exchange rate was apparent—this would extend boundary lines and increase the scope of policy autonomy facilitating the new government's policy agenda.

By mid-October issues were coming to a head between the government and Treasury, the RBA was largely on-side with the government's intent for a full-float, Johnston is quoted by Bramston (2017, 212) saying: "I did not recommend floating the currency as an ideologue, but strictly in the light of the financial conditions of the time". Stone was still holding out, he believed a more detailed consideration of how and when to float was needed (*ibid.*). A Treasury memorandum on "Exchange Rate Management Problems" sent to Keating was the subject of a discussion between the Treasurer and Prime Minister (Edwards 1996, 220-21). Stone saw the Treasury's management of the exchange rate as one of dampening volatility in the currency value. Hawke's office remained suspicious that Treasury was continuing to overvalue the dollar to dampen imported inflation, but at the expense of export competitiveness. Stone claimed that the capital inflows were not a fault of the exchange rate system but of the deficit, and the remedy was to reduce the deficit—a reflection of his rationalistic ideology. Stone "felt that 'evolution not revolution should be the order of the day.' Governments should only change policy on the basis of written advice and specific proposals" (*ibid.*). This comment was directed at the RBA; Stone felt their formal advice on the range of options was 'scantily' prepared and presented. Stone (2012a, 16) believed, as quoted in a memo to Keating, the government should have locked into:

...a more deflationary world which now prevails beyond our shores. From one viewpoint I must say...that there is some attraction in that course. Removal of the "dead hand" of government from this area of policy ought, on those grounds, to be a plus for more rational economic management ... We would support the Reserve Bank to the extent of agreeing that some change in the system is warranted. But we believe that change in this area should be undertaken in stages. A complete and wholesale leap to a full market system overnight would be an act of faith to which the government has no need to commit itself at this time and the consequences of which cannot clearly be foreseen.

This extract illustrates the conflict that Stone was in personally, it was not a view shared by many others in Treasury. Bramston noted that in an interview with Evans it was clear that for at least two years there had been dissent within Treasury regarding a float of the dollar, and that Stone's personal opinion had dominated the advice provided to government (Bramston 2017, 213). On the one hand Stone was a champion of the rationalist school, with a focus on price stability and minimal government involvement, but on the other he was nervous of change and wanted to tread very slowly—despite the unrelenting exogenous forces of speculation, which he thought could be tamed. He was defending a long held policy line, but his justification was weakening.

However, by late October Keating was starting the process of breaking with Stone. Ted Evans, Head of General Financial Policy in Treasury, wrote to Stone minuting a call with Keating about Keating's intent to float, due to the continued destabilising currency inflows. Keating had side-stepped Stone to get Evans' opinion (O'Brien 2015, 153). By side-stepping Stone and making a

direct call to Evans Keating was signalling his intent to Stone, he was aware there was dissent in the ranks of Treasury (Pusey 1991; Whitwell 1986)—the defence lines had cracks.

On 26th October there was a meeting at the RBA's Canberra office to discuss the ongoing capital inflows, chaired by Keating, with Johnston and Phillips from the RBA, Treasury officials Stone, Moore, Whitelaw and Evans, Keating's private secretary Cole, and Garnaut from Hawke's office. "According to Cole's recollections, Keating and Johnson were ready to decide on a float at that meeting, and Garnaut would presumably have advised of Hawke's support. Stone very strongly objected, however, and he was supported by Moore and Whitelaw" (Edwards 1996, 223). Stone argued that neither Keating nor the RBA had presented a sufficiently documented justification for a full-float, that the risk to exporters was too great, and that "Australian foreign exchange traders needed more experience" (ibid.).

In the face of what Phillips, quoted in McCarthy and Taylor (1995, 229), described as "incredible opposition" from Stone, it was agreed only to proceed with the "partial-float" option, an "interim measure to float the forward-rate", this was in line with Treasury's 'evolutionary' approach to changing the system and not to send a destabilising shock (Bramston 2017, 214). Phillips added that given the strength of Stone's opposition, and despite their own opinion, the RBA felt an obligation to accede to a partial-float strategy. (McCarthy and Taylor 1995, 229). "Keating was not happy with the decision" (Edwards 1996, 223).

The partial-float option entailed the RBA withdrawing from setting forward rates with the trading banks taking over, to the extent that they had the expertise and capacity. The spot-rate determined by government officials remained being set before the start of trading but the actual rate the banks could exchange their foreign currencies would be set at the end of the day—thus allowing traders freedom to buy and sell in response to movements in the international markets. The RBA would no longer require trading banks to convert all their foreign currency holdings into Australian dollars at the end of the day—different limits were to be set for different banks. But according to Nevile (1997, 283), "While these changes reduced the potential for speculation against the Australian dollar, they did not remove all speculative avenues".

As a concession to Stone, Treasury was given a leading role in setting the daily spot-rate, previously this was determined by consensus between the heads of Treasury, Reserve Bank, Finance, and Prime Minister and Cabinet. "It was also agreed that the Treasury could artificially set the dollar [spot] rate in such a way that it might out-guess the speculators" (McCarthy and Taylor 1995, 229) and thus discourage them since, as it had been argued by Stone, speculation was a "temporary phenomena" that could be outplayed (ibid., 230). "The Reserve Bank was sceptical that these

changes would deter speculators” (ibid, 229). And so it proved, however the partial-float did prepare the way for the trading banks to increase their readiness for the eventual full-float, since reversing the partial-float would be highly unlikely structurally and impossible politically. Keating signalled this to Stone after the meeting on the footpath outside the Reserve Bank, “I said to Stone this is the last time you get support from me – you get in line John, next time there is a run on we will float” (ibid.). A discussion Stone (2012a, 19–20) denies.

Tony Cole, private secretary to Keating, commented, “I think it’s fair to say that both the Treasurer and the Prime Minister had decided a float was on prior to the 28th of October. From then on it was only a matter of when the circumstances were right” (O’Brien 2015, 154). Later that day, at a speech to the Merchant Bankers’ Association Hawke announced:

...that the forward rate was now free and that exchange positions would be settled only once, in the evening, so that the dollar price could be set by the market during the day. These two decisions put pressure on the fixed spot because they allowed the market to lead and could in some circumstances compel the Bank to follow. (Edwards 1996, 224)

However, as noted by the RBA (n.d.-a), “These measures produced [only] a short period of calm in markets.”

November 1983 – Speculation continues

A Cabinet memorandum prepared by Keating early in the month titled “Monetary and Exchange Rate Policy” put the cabinet on notice of the intent to float, and the optimum time would be in the January vacation period when the markets were quieter (O’Brien 2015, 152). Keating was keen to understand the effectiveness of the ‘partial-float’, and to what extent this would placate Stone’s reticence for a ‘full-float’ as distinct from further ‘evolutionary’ adjustments to the system, or even some limited tougher capital controls as promoted by Stone. But Keating was not prepared to support further capital controls, he wanted to open the capital markets and free the economic system from what he saw as the constraints of the domestic banking system (Bramston 2017, 210). With the economy improving, addressing the continuing destabilising currency market was now a priority, it had become a core component in re-setting boundary lines.

However, at month’s end Keating wrote to Johnston to express his concern that the partial-float had not dampened capital inflows and upward speculation on the dollar:

I consider the almost unbroken upward crawl...re-established in the market punters’ minds the view that the only way our currency would go was up and, in this way, stimulate the resumption of unwanted flows. In short, I am concerned that the daily management of the rate effectively blew the opportunity provided by the changes to the system to break the vicious circle of capital inflows speculating on upward movements which were being forced on us by the inflows themselves. (Quoted in (Bongiorno 2015, 47))

In the exchange between Keating and Johnston, the distinction between ‘punters’ or speculators and genuine long-term investors is made—and if the inflows were very much short-term ‘one-way’ trades, as Keating believed, then a float was both justified and inevitable (Bongiorno 2015, 48; Bramston 2017, 214).

December 1983 – The decision to float and liberalise

Edwards (1996, 225) observed that, “Keating and Treasury expected that the capital inflow of November and early December would reverse itself, but instead it increased.” The RBA, summed up the situation at the start of December:

While the revised currency arrangement in [October] 1983 helped prevent disruptive capital flows arising from overnight position-taking in the foreign exchange market, they did not prevent longer term speculative pressures on the \$A. As capital inflows continued to mount in November 1983, there was another effort to suppress the increase in the value of the Australian dollar in an unsuccessful attempt to inhibit the inflow. The continuation of large capital inflows was now dominating domestic monetary management and by the first week of December, markets were in disorder. (RBA, n.d.-a)

The trigger for both the float and foreign currency market deregulation occurred on the last day of parliament for 1983, Thursday 8th December. Despite the best endeavours of Treasury to control speculation with the ‘partial-float’ from late October and their manipulation of the daily spot-rate, capital inflows of some \$1.4 billion had arrived the first week of December “adding a full 2 percent to the money growth rate, which was already above the 9 to 11 percent target” (Edwards 1996, 225). Bramston (2017, 215–16) describes the events of that day:

...with about \$1.5 billion booked to arrive in the coming days, a flurry of meetings and phone conversations were held about whether to close the foreign-exchange market the next day and float the currency. It was the final parliamentary sitting day, and end-of-year Christmas parties were in full swing. The national accounts released that day had shown the economy emerging from recession and recording the biggest quarterly growth rise since the 1960s.

It was an ‘end-of-term’ buoyant mood for all bar Keating, Stone and Johnston who “were on the phone all afternoon. As these significant inflows of capital were set to overwhelm the monetary target, undermine the effectiveness of government policy, and potentially stall the recovery. Stone said they should stare [the speculators] down,” and Johnston said his expectations “were ‘for a very big day on Friday’” (Edwards 1996, 226). Both situations were politically unacceptable.

Bongiorno (2015, 43) recounts that:

Hawke and Keating...had heard from the RBA early in the evening that its New York office had reported a likely inflow of many millions of dollars the following day. Hawke and Keating spent the evening talking to one another, and to their economic advisors, about how they might avert this latest threat.

In Hawke's office that evening, Hawke, Keating, Visbord, Garnaut and staffers Peter Barron and Graham Evans, agreed "that the government should float the dollar" now (Edwards 1996, 226).

Later that evening "Keating told Stone over the phone that 'we are probably facing a float or something else' because the partial-float was not stemming the disruptive speculation" (Bongiorno 2015, 43). And Keating, "did not think the policy of ratcheting the exchange rate down was providing any answer" (Bramston 2017, 217). Close to midnight Keating phoned Stone again:

He said that he was 'afraid' that the matter was getting away from us. Because of the need for an EPC [Economic Policy Committee meeting] on the Friday, some ministers had already been told to hold off their travel plans. The news had reached the press gallery. (Stone 2012a, 18)

Stone advised Keating to cancel the EPC meeting and use the weekend to discuss and consider the options, and if required close the foreign exchange market and call an EPC meeting on Monday, and not before. As closing the market and calling an EPC meeting on Friday would mean the market "could not be opened again on the same basis" (*ibid.*). Stone believed more time was needed to make a fully considered decision. His view was that, "while the managed system had its limitations, it had insulated Australia from volatility in currency movements and that, by throwing the system open, we as a small economy would be thrown about like a cork in an ocean" (O'Brien 2015, 151). Stone was opposed to what he saw as a quick float as he predicted that the dollar would rise by over 10 percent and impact international competitiveness and counter the positive trends that had been stimulated by the previous government's record breaking budget deficit that was now washing through.

Bongiorno (2015, 49) reflected, "The consequences of a quick float could not have been foreseen, and none of the participants in the decision knew what would happen when the markets opened on Monday [12th December]." As noted earlier, Stone's preference was a more evolutionary approach to liberalising the operations of the foreign exchange market (*ibid.*, 48). Stone thought, quoted in Bongiorno (*ibid.*), that "change...should be undertaken in stages. A complete and wholesale leap to a full market system overnight would be an act of faith to which the Government has no need to commit itself at this time and the consequences of which cannot be clearly foreseen."

Stone's presence was also a totem for the international financial community, so at least in the early phase of the new Labor government his continued presence would lend credibility to the Hawke-Keating strategy. Keeping Stone and the Treasury 'on-side' whilst Keating established his personal standing with the finance markets was not just politically astute it was essential. As Kelly (2008, 83) described it, Keating "knew the decision was historic; he knew the consequences were

unpredictable. He didn't want the markets, domestic and abroad, thinking that the Australian Treasury had opposed the move. Both for the record and his own reassurance Keating wanted the Treasury on board." In addition, "Keating realised that he needed the expertise of the Treasury in formulating economic policy", so an inclusionist strategy was preferred for effective government, at least in these early days (McCarthy and Taylor 1995, 225). That said, Stone's views were not necessarily fully endorsed by others in Treasury (O'Brien 2015, 136–37), and by now, with this current crisis and the evident failure of the 'partial-float' strategy, "Keating had...broken with Stone" (Bramston 2017, 217). Or in Nevile's (1997, 283) words, "On this occasion economic pressure was sufficient to overcome the Treasurer's desire for policy consensus". The Treasury line, the defence lines, so long protected would be overturned—Hawke and Keating's collective political acuity recognised a window was opening to re-set boundary lines and they were going to take it and consolidate their agenda on the back of the permissions they had amassed since the election.

Soon after midnight Johnston informed Keating that \$800 million, equivalent to around 1 percent of the existing money supply, was booked to flow into the country the following day, Friday 9th December. According to Bongiorno (2015, 44), it was this further news from Johnston that convinced Hawke and Keating that it was the right decision to go now, "Keating consulted key ministers – Bill Hayden, as a former treasurer; John Dawkins, the finance minister; and Ralph Willis, a shadow treasurer in opposition, now in charge of industrial relations. All agreed" (ibid.). At around 1am Friday morning, Keating phoned Johnston to tell him the float was on, the Reserve Bank should suspend foreign exchange dealings (McCarthy and Taylor 1995, 230) and the heads of the Bank should attend a morning meeting in Canberra to agree the practicalities. In Bongiorno's (2015, 44) view:

...the decision to suspend foreign currency dealing meant there was no turning back. If the markets had reopened on Monday under the old rules, the government would have looked indecisive and foolish, its economic credentials shattered. The government had either to float or impose capital controls, and the latter solution would have issued a message about the Labor government's attitude to markets that it was quite unwilling to send.

This is a palpable demonstration of the trilemma, discussed earlier, the choice of a float or capital controls. And whilst I concur with Bongiorno's conclusion that re-introducing capital controls would run counter to the Labor party's messaging to the financial markets there was also the hard reality that Krugman (1999) identified, the capital markets were of such a scale that effective control was a false aspiration. One that would demonstrate a failure to understand the new global context of the financial markets—the very awareness that Hawke and Keating were claiming.

The following morning Keating convened an early meeting, that included his advisors Cole and Hughes; from Treasury Stone, and deputy secretaries Moore and Rye; from the RBA Johnston, Sanders, and Phillips. “Keating told the group that ‘the present system’ was ‘beyond redemption,’” and that the full-float was the government’s preferred path (Bramston 2017, 217). Stone still objected to both the timing and the process; he was only told that morning of the decision to close the market which had gone against his advice. “Rye’s note records...‘He [Stone] was bound to advise that, in his view, there would be strongly adverse effects for the economy’” if this option was taken (Bramston 2017, 217).

There followed a meeting in the cabinet room, with the key players from the Hawke and Keating offices, Treasury, Reserve Bank, and Department of Prime Minister and Cabinet. Hawke chaired the meeting and for the record Keating outlined the options:

The existing strategy of buying foreign exchange was now brought ‘into very serious question,’ he said. ‘The monetary target is in the melting pot.’ The options were: ‘to carry on’ and lower the exchange rate; ‘appreciate the dollar’ to the level where ‘expectations change’; or ‘to float’ and remove the speculative factor of betting against authorities. (Bramston 2017, 217)

Hawke invited others to express a view, and according to Bramston (2017, 218), there was a prolonged debate. As expected, the RBA backed the option to float but with the caveat that they did not have a view on the immediate impact on the value of the dollar. In place of the float the Treasury proposed to restrict short-term capital flows to counter speculation (an option omitted in Keating’s opening statement (Stone 2012a, 18)), akin to the Variable Deposit Requirements (“VDRs”) that were used to quell ‘hot money’ inflows between 1972 and 1977. This arrangement, administered by the RBA, had “imposed a ‘tax’ on purely monetary inflows that varied inversely with the length of time before the inflow reversed” (ibid., 14). Stone reflected (in 2012) that the VDR was highly unpopular with foreign exchange traders and merchant bankers who pressured for its end, but as an instrument of policy he believed it was successful. According to a note by Rye (ibid., 18), Stone argued that given the ‘recovery’ mode of the economy, wasn’t it better “to give a shock to the financial sector than the ‘productive’ sector”—assuming a ‘shock’ would be an outcome. Stone completely misread the room by returning to capital controls—Hawke and Keating had long given up on them as a policy option and the RBA saw them as almost impossible to implement given the growth and sophistication of the market.

Next, Stone considered the 9 to 11 percent M3 monetary growth target, and according to Stone the RBA had re-affirmed the appropriateness of this target in the light of speculative currency flows, noting that “the sort of money that has been coming in recently does not damage the real economy [i.e., so long as it is not allowed to push up the exchange rate], and we ought not to

‘crucify the economy on the cross of the monetary target’” (ibid.). Notwithstanding Stone’s arguments:

The dilemma with the Treasury position was that it still left the Australian dollar as a sitting target, with the consequences that each time the speculators outguessed the Reserve Bank it was the Australian taxpayers who ultimately lost...Such speculation would have both budgetary and monetary implications and depending on its timing could have electoral consequences. This being the case, the option advocated by John Stone contained unacceptable political risks and moreover lacked a solution to the historic flaws in the regulatory system. (McCarthy and Taylor 1995, 230)

During the meeting Phillips, the General Manager of the RBA’s Financial Markets Group, recalls being asked by Hawke what *he* thought could happen to the currency after the float, as there were dissenting views within the room. Phillips’ response was that it depended on what they chose to do with exchange controls:

...and Hawke, at the end of my exposition, turned round to Bob Johnston and said, ‘if you had the option of getting rid of all the exchange controls, Governor, would you do it? And that’s how we got rid of all the exchange controls because Bob [Johnston] turned round to Don Sanders [the Deputy Governor] and myself and said, ‘what do you think? Our view was that it would be difficult to manage, but if the window of opportunity was there, you’d better take it, because you never knew if you would ever get another chance. So that’s how they [the exchange controls] all went. (Nevile 1997, 284)

By this time, according to Bongiorno (2015, 44), Hawke and Keating were fully “committed to the ‘desirability of allowing market forces to have more rein’” across the whole foreign exchange system. This now included all exchange controls, except for politically sensitive “controls on investments in Australia by foreign governments, their agencies, or foreign banks” (Nevile 1997, 283). Interestingly, according to Nevile, from an interview with Garnaut, dropping exchange controls had not been on the agenda for that morning’s meeting (1997, 291). This aspect of the deregulation was supported by Hawke, Keating and the RBA. But not overtly by Stone (2012a, 18) who noted that Johnston “had argued that a float could not operate successfully with exchange controls”. But according to Stone’s account of the meeting he, Stone, chose not to dissent whilst Johnston argued this point. To Stone there were plenty of examples of currencies that had combined a floating rate with differing degrees of exchange controls, such as Japan, Britain and France, and one was not a prerequisite of the other (ibid., 18–19).

According to Nevile (1997, 283), who interviewed Johnston in September 1995, “In removing the majority of exchange controls at the same time as floating the dollar, Australia went further than most other countries in deregulating its foreign exchange market.” Nevile added, based on interviews with Visbord and Phillips, it was a move that many in the business community and government had been lobbying for years, it was seen as an unnecessary regulatory burden on trade, whereas the Treasury and some earlier Treasurers (before Howard and Keating) believed “that exchange controls (and a managed exchange rate) gave Australia a better chance of controlling its

own economic destiny” (ibid.). But the exchange controls had been originally established to restrict outflows of money, whereas the growing issue from the late 1970s became one of keeping inflows under check. Johnston, in his interview with Nevile (ibid.) described the situation as follows, “the Bank felt that exchange controls were a bit like the guns at Singapore—they turned out to be facing the wrong direction”. Johnston added that by the early 1980s, exchange controls were becoming an administrative burden for business and increasingly ineffective for government policy as companies were finding ways around the regulations. A view shared by the Campbell Committee that concluded:

...in today’s world of closely interrelated financial markets, exchange controls could not prevent appreciable movements of capital into and out of Australia in pursuit of interest arbitrage or speculative foreign exchange gains, if the exchange rate is markedly out of line with market expectations. (Campbell Committee 1981, 121)

A question raised by Banuri and Schor (1992b, chap. 5) is to what extent was policy autonomy undermined by this apparent opportunistic removal of exchange controls. They make a comparison with the Swedish model, “Whilst exchange controls by no means gave the authorities complete policy autonomy, they certainly contributed to the much less erratic pattern than in Australia” (ibid., 128). They are referring to the currency crisis that would hit Australia from late 1984 to 1986, accentuated by significant outflows of capital, the very outflows that Johnston refers to above. In the short-term, this brazen relaxation of exchange controls signalled liberalisation to promote trade and investment and pandered to the international markets. In the longer run it would require a transition of the RBA to becoming a greater participant in the market to manage the exchange rate, and required the requisite consequential monetary policy “to attract adequate capital inflows and retain the growing share of short-term funds” (OECD 1987, 33). Banuri and Schor (1992b, 131) posited that the outward capital flows, unfettered by the removal of exchange controls, would give “the financial markets enormously enhanced power over the Labor Government’s policies” and notably that of the Accord’s effectiveness—as witnessed by the policy consequences of the run on the currency in the mid-1980s.

Hawke concluded the meeting, which was neither a formal EPC or Cabinet meeting, and said, “there was a clear majority view for a float and he himself was persuaded that it was the appropriate course” (Bramston 2017, 218). The decision was later “rubber-stamped” by a “hastily assembled” EPC meeting that afternoon, “the remaining members of the full Cabinet, and the thirteen members of the outer Ministry, first learned of the decision from radio broadcasts later that afternoon” (Stone 2012b, 54). The formal minute of the EPC, Decision No. 2620 (EP) stated, “The Reserve Bank no longer quotes a rate at which it will buy or sell foreign exchange, [and]... The Reserve Bank will intervene in foreign exchange at its discretion to buy and sell in accordance

with intervention policy determined by the government”. The float and abolition of exchange controls would be effective from Monday 12th December 1983.

Late that afternoon Keating (not Hawke) with Johnston (not Stone) by his side, held a press conference to announce what had been decided. “‘The decision to float means that the speculators will now be speculating against themselves rather than against the Australian government’, Keating said...no longer would senior officials determine the exchange rate within guidelines set by cabinet” (Bramston 2017, 218-19).

“At the beginning of 1983 Treasury and the Secretary of the Treasury were still the most influential forces on the Bank, though this was changing” (Edwards 1996, 209). Prior to the float the Reserve Bank was fundamentally a bond-selling agent of Treasury. It had no great policy standing because the exchange rate was determined by officials from four departments and interest rates were fixed in a band decided by Cabinet on recommendations from Treasury. Under this old arrangement the RBA was very much a subordinate to Treasury (O’Brien 2015, 147). The float had a fundamental impact on the role of Treasury in economic policymaking as it lost control over monetary policy. The Reserve Bank was elevated from being Treasury’s agent to becoming both “a source of economic advice to government,” and responsible for monetary growth (ibid.). “And it [the float and deregulation] marked a departure from Labor orthodoxy, ‘It was probably the most important thing I did as treasurer,’ Keating reflected” (Bramston 2017, 219).

In coming to terms with the destabilising exogenous forces of currency speculation, on its terms, the Hawke government demonstrated its re-setting of boundary lines and expanded policy autonomy. It heralded the start of financial system transition, to be more closely aligned with the global system, by the removal of historic protections that were increasingly moribund. It had diminished the power of Treasury, which for the last two decades had exerted considerable influence, as a non-elected actor, over policy with its ideological preferences that often ran counter to the goals of the elected actors within government. Hawke and Keating took advantage of the herd-like ‘animal spirits’ of currency speculators to bring about a radical change to the Australian economic system—it was not forced on the government; it was a show of calculated political opportunism. By combining the float with the liberalisation of currency controls they created a space for the markets to digest the full extent of what had been changed, in effect they neutered any sudden or irrational market reaction.

On Monday 12th December, “in an uneventful day of trading, the markets began dealing in Australian dollars for the first time. The sky remained in place” (Bongiorno 2015, 44). The US\$

exchange rate was around 90 Australian cents on Thursday 8th December; it closed at 91.75 cents on the 12th December. By the end of the year it was back at 90 cents. It had closed as low as 87.7 cents during that period as speculators adjusted their exposure to adapt to the new arrangements (RBA, n.d.-b). In a summary of the events following the float from the RBA's archive:

In the first few days after the float there was some within-day volatility in the exchange rate... There were further episodes of exchange rate volatility in February and March 1984. However, despite these bouts of volatility, the overall fluctuation in the Australian dollar was not out of line with the experience of other floating exchange rates...

The float of the Australian dollar combined with interest rate flexibility gave the Bank greater control of the cash-rate, enabling its effective use as an instrument of monetary policy. (RBA, n.d.-a)

The float and liberalisation of foreign exchange and capital controls transformed the relationship of the government with the global financial markets and asserted the government's policy autonomy at a time of improving economic conditions. This was no mean feat for a Labor government that only a few months before had been subject to fear mongering by the press, scepticism regarding the Accord, and currency and capital speculation driven in part by perceived ideological differences. Nevertheless, the Hawke administration had taken the opportunity and expanded government's policy autonomy to pursue its reformist political-economic agenda.

3.2.2 Reflections on the float and deregulation

Bramston (2017, 219–20), believed the float and deregulation, “had a profound impact on politics of the country”, with the currency acting “as a shock-absorber when the economy was buffeted by strong headwinds from abroad”. By way of example, Bramston cites both the Asian currency crisis of 1997 when the dollar fell to below 50 US cents and the resources boom of the early 21st century that drove the Australian dollar towards 1 US dollar, “it was the currency rather than the economy, that absorbed the impact” and boosted competitiveness and productivity (ibid.). I would argue it went further than this strategically, as this “shock-absorber” facilitated the re-setting of boundary lines and as a consequence extended government's policy autonomy.

In an article in the March 2012 edition of *Quadrant*, Stone (2012b, 57) quoted an unnamed colleague who saw the float as a natural culmination of an evolutionary process:

...that really begins with the discussions on the exchange rate in the early 1970s (and perhaps even earlier) through the series of discrete revaluations and devaluations in the early-mid 1970s, the switch from the sterling peg, to the US dollar, to the trade-weighted index, through the flexible peg arrangement from 1976 to 1983, the float of the forward rate to the full float...with the decision to float being the culmination of this evolutionary process, rather than something that happened suddenly on 9 December 1983.

This seems a retrospective redefinition of a process that, at the time in 1983, Stone suggested was hurried and poorly conceived—which supported his defence line. Nevile (1997, 284), writing over a decade and a half later reflected on the political implications of the events of 9 December 1983:

Both the Treasurer (Keating) and the Prime Minister (Hawke) were convinced of the need to float the dollar for economic reasons. However, the decision to deregulate the foreign exchange market also served a wider political purpose in that the decision established Labor's credentials as an effective modern party able to deal sensibly with fundamental economic issues.

Politically, just as they had used the March devaluation and the Coalition's budget deficit blow-out to modify their pre-election promises, Hawke and Keating took the initiative away from the Coalition which had squandered the opportunity for significant financial market reform by not following up on the Campbell Report. In Phillips' words, quoted above, a "window of opportunity" had opened with the speculative currency inflows and resulting upward pressure on the Australian dollar, it could have been a different circumstance if there had been a sustained run against the Australian dollar and its foreign currency reserves. But at the start of the Labor government in March 1983 financial sector reform did not figure as a priority, this political pivot by Hawke represents a blend of a positively reactive and proactive policy response within a discrete window of opportunity. Far from being a reaction to the market, they were taking advantage of the market to establish their political agenda and support the broader needs of the economy, and which according to Walsh (1991, 44) the float and deregulation was a clear political signal to the business sector that it would be the engine to drive investment. Galligan and Singleton (1991, 3) saw the float and foreign exchange deregulation as a palpable step towards reconciling the labour movement with the business community. McEachern (1991, 136) goes further by proposing that the Labor government was adopting, "economic settings that were broadly compatible with the needs of private capital accumulation".

Bryan and Rafferty (1999, 126-30) argued, "the Australian government had no credible option but to float the dollar. The notion that the float was ideologically driven (and could hence be reversed under a different policy framework) is inconsistent with the evidence." They concluded that following the effective end of the Bretton Woods system and the growth of the euro-markets, the Australian dollar "had been increasingly market-driven" and "the old order of fixed exchange rates was unsustainable and that the international market for Australian dollars was overwhelming the domestic regulatory practices of the RBA." The RBA "was only one player" in an increasingly growing global market for Australian dollars. Bryan and Rafferty (1999, 129) argued that, "the exchange rate, and the financial sector generally, remains regulated though by quite a different process than at the beginning of the 1980s. It is no longer managed by domestic decree, but the Australian state operating outside Australia in the markets for international finance." Just as the

Hawke government had created a palpable bond with the business sector through the Accord, it had achieved a similar bond with finance through market liberalisation. Kelly (2008, 77) in *The End of Certainty* concurred:

The float had a psychological significance almost greater than its monetary effects. It sealed a *de facto* alliance between government and the financial markets; it made Keating a hero of the markets. For a while Labor became the fashion within the financial sector and even in sections of the corporate sector, notably the ‘new money’.

Bryan and Rafferty highlighted the distinction between a fully free float (a clean float) or one where there was still some form of smoothing intervention (a dirty float). This distinction, they argued, “is germane to the assessment of whether the state was deregulating the currency in the name of market forces or undertaking a strategic reconfiguration of the regulatory process in light of the developments in global financial markets.” In other words, the Labor government liberalised the exchange rate system on their terms, not those of the market, they pushed out policy boundary lines in the face of resistance from within (the Treasury department) and uncertain exogenous forces (currency and capital speculation); being a demonstration of political opportunism and expanded policy autonomy. Pauly (1987, 2) concurred:

In the final analysis, Australia’s response to pressures in the financial sector did not abrogate the state’s control over domestic banking markets, rather it changed the way that control was exercised. Likewise, the decision to open the markets did not represent an unavoidable surrender to international demands, rather it signalled a cautious, evolving, and self-interested affirmation of norms increasingly shared with other industrial countries. The decision was distinctly Australian.

...

As noted earlier, the Australian dollar floated reasonably freely (in Phillips’ words “a slightly soiled float” (RBA, n.d.-a)) for just over a year until January 1985, when “the RBA shifted its monetary policy focus to include, inter alia, the exchange rate,” (Johnson referenced in Bryan and Rafferty (1999, 128)). As noted by Bryan and Rafferty, this mirrored “a similar shift in US monetary policy”. One fundamental point here is that the float and deregulation transformed the policy options and policy instruments open to the Australian government—it re-set the boundary lines of policy autonomy. Beggs (2015, 9), referencing Cahill stated, “No sooner had the old systems of financial regulation been swept away than new projects replaced them: a rationalisation rather than a deregulation.” Either way it is a demonstration of government retaining control and not ceding it.

3.2.3 The Hawke government’s choices

The regulatory system that the Hawke government had to contend with was established very much in an *ad hoc* way in the 1950s when capital flows were “quiescent” (McCarthy and Taylor 1995, 220). By the 1980s those same regulations were proving incapable of addressing the disruptive volatility and sheer mass of capital flows emanating from globalised financial markets. The Australian dollar was prey to episodic and growing speculation from 1973, and the introduction

of the crawling peg in 1976 effectively put a ‘target on its back’ that attracted profit seeking speculators to the detriment of effective economic management, and the consequential impact on policy autonomy.

McCarthy and Taylor (1995) in their review of the politics behind the float examined, “three options open to the Labor government for dealing with the repeated speculation against the dollar” (ibid., 220). Critically by Friday 9 December those options had narrowed given the piecemeal decision-making that had taken place since the devaluation in March that year, the consequential and relentless ongoing speculation, and the floating of the forward rate on 28 October—the latter signalling the inevitability of a full-float.

Option one – maintain the existing currency management arrangements and retain the existing regulations for a month or two. According to McCarthy and Taylor this was the option supported by Stone, who believed the government could “wait out the speculators. Treasury’s collective thinking was that the waves of speculative inflows of capital were but a temporary phenomena and that if government showed some resolve, then speculation would abate” (ibid., 220). Stone presented this case at the Friday 9 December meetings, adding that uncertainty from the potential economic downside far outweighed having to manage speculative capital movements. He was looking to buy time to effectively re-regulate (option two) the foreign exchange system and provide more time for the ‘partial-float’ of 27 October to prove its effectiveness.

However, given the government had instructed the RBA to close the foreign exchange market on Friday 9 December, a ‘do-nothing’ decision would be seen as political weakness, and it was believed by the ‘pro-float lobby’ that the outcome would lead to greater currency speculation. Closing the market to head-off the expected massive inflows of capital was a signal to expect fundamental change. Such a simple decision, the closing of the currency market, that was taken around midnight by Hawke and Keating, had much deeper ramifications.

Option two – re-regulate, toughen or revise existing regulations to prevent or suppress disruptive speculative forces, but “such a proposal would have involved fundamentally overhauling both internal and external financial regulations,” that McCarthy and Taylor (ibid., 219) regarded as a major task. Whereas, Stone (2012a) had proposed re-establishing a model similar to the VDR of the mid-1970s, in the available papers he does not comment on the ease with which it could have been re-established. McCarthy and Taylor argued that revitalising regulations was “implicit both in the Accord document and ALP policy statements...so as to discourage the speculators through tight controls and punitive taxes” (McCarthy and Taylor 1995, 220). They referenced both the

earlier Whitlam government, and the regulations used in Sweden that both had a “social democratic” overlay to stimulate productive and socially desirable investment and discourage unproductive capital flows. However, whilst mainstream Labor thinking had been developed before they came to power, the harsh reality as it emerged from March to December 1983 was that the economic disruptions caused by the relentless currency market speculation was best resolved by way of the discrete full-float, not a phased readjustment of controls. Hawke and Keating saw re-regulation in the form proposed by Stone as a backward step, and politically out of step with how the Australian economy should be structured in the changed global context.

Option three – deregulate by floating the currency *and* allowing unrestricted currency exchange.

McCarthy and Taylor (ibid.) argued that:

Keating was attracted to financial deregulation mainly for ideological reasons, in that he regarded the regulatory system as a barrier to growth, seeing the regulations as serving conservative financial interests. Consequently, for Keating, deregulation would undermine this entrenched ‘network’ of power and release capital to entrepreneurs who would create wealth.

In a 1990 interview, Keating cited the episode of his father’s family business being starved of capital despite having bankable projects, and reasoned it was due to lack of competition within the banking sector, the corollary being that the retail banking sector was stifling growth. His conclusion was “that competition by its essence brings ‘freedom’ and undermines class rule” (ibid., 227). Keating is quoted as saying:

Previously, if you were wealthy you could borrow, if you were smart you could not. So the intelligent people could not get funds but the rich people could and that’s basically why I deregulated, so clever people could get a go. (ibid.)

Furthermore, there was a very strong political message in a combined float and related deregulation. These actions epitomised the very essence of Labor being a “party of reform and innovation, defending the interests of the ‘battlers’ and supporting those who ‘make society tick’” (ibid.). By contrast the Coalition presided over:

...the ‘wasted’ years of Australia’s economic development. For Keating the existing financial regulations were an example of the Liberal Party serving the interests of a financial elite at the expense of economic efficiency and social equity. Deregulation would therefore reverse this class bias and open up the Australian economy to international competition. (ibid., 228)

It would lead to a political realignment as Labor took the initiative from the Coalition parties that had blocked financial deregulation despite having created a blueprint and setting expectations for change in the Campbell Report. McCarthy and Taylor (ibid., 221) described this palpable distinction between Labor and the Coalition as “the ‘progressive’ capitalist versus the ‘conservative’ capitalist”. In addition to the ideological and political drivers for this option, from a practical perspective the RBA too “had lost faith in the (flawed) regulations” (ibid., 220).

...

Whilst all three options had been debated at the October meeting, by the time of the Friday 9 December meetings, 're-regulate' was no longer a meaningful option. Those wishing to delay the float, principally Stone, were out of time. The existing system was at best ineffective and at worst a costly impost to the Australian taxpayer, it created a false environment for Australia in an ever integrating globalising economy. McCarthy and Taylor (ibid., 219–20) saw not only Hawke and Keating as representing the reformist tradition of Labor governments, but one that was mirrored within pockets of the broader labour movement epitomised by the "rise of 'econocrats' to head the ACTU". So that the float and financial market deregulation would create a more equitable outcome for the greater good than a regulated system that benefited only the historic elite (Keating 1987).

The option that was chosen demonstrated a realignment of boundary lines, changed the role and effectiveness of some existing policy instruments (e.g., cash-rate of interest), and brought the RBA to the table thus weakening Treasury's hold on macroeconomic policymaking. Later, it would challenge the role of policy strategy over the external balance.

3.3 Summary & Conclusion for Part 3

"The final judgement upon Fraser is that he misread the times in which he governed, notably towards the end. Fraser made some concessions but never grasped that far more radical solutions were required to address the national deterioration. Australia faced a worse crisis in 1983 when Fraser lost than in 1975 when he won, the ultimate test."

Paul Kelly *The End of Certainty* (2008, 37–38)

The election of a Labor government in Australia in 1983 ran against the general trend of other larger OECD members in the early 1980s. This was the Thatcher-Reagan era that also saw the demise of many Social Democratic coalitions in northern Europe and the reversal of Keynesian expansionist policies in France. Tight policies of high interest rates and austerity were deployed to bring down inflation in the major northern hemisphere economies—it marked the accession of monetary orthodoxy over the Keynesian-synthesis with neoliberal ideology in its ascendancy. As an exogenous force this ideology permeated the international financial markets that consequently sought out price stability and reacted negatively to budget deficit strategies. Financial markets, through innovations in technology and the global network of international merchant banks, traders and the treasury functions of corporations, could move capital rapidly into any time-zone to take advantage of arbitrage opportunities or merely speculate on an unprecedented scale. Transnational corporations were also on the rise, and as supply chains improved 'production location' became a growing element of business strategy. As a consequence, policymakers from the 1970s faced a very

different range of exogenous forces in the 1980s. It would take innovative endogenous action to re-set boundary lines, in the face of these new exogenous forces, to carve out the necessary policy autonomy to meet Labor's policy objectives.

As quoted earlier many scholars regarded the Hawke government of 1983 to 1986 as a strategic turning point in Australian political-economy, with the Accord, float and the opening of the financial sector being at its heart. The irony being that the financial market structural changes were not on the agenda when Labor came to power. The *positively reactive* policies that were introduced from late 1983 were a product of endogenous action in response to exogenous forces, the latter creating the opportunity to extend the boundaries of policy autonomy—an opportunity that was taken through political opportunism without power being ceded to non-elected actors.

I tracked some of the key endogenous actions, decisions and tensions from March to December 1983. Whilst the early currency market pressure could be seen as 'exogenously coercive', I argue differently, that Hawke and Keating understood the power of the market and used it to their advantage, and they also recognised other forces that would constrain policy autonomy and worked to address these. **Firstly**, the government chose a 10 percent devaluation siding with the RBA rather than going with Treasury's 5 percent, it was a decisive move by the new government that sent a signal of intent to the currency market that the old '1970s' system of the adjustable peg was no longer relevant to the Labor leadership's plans—prior to the election both Hawke and Keating had expressed their private preference for many of the Campbell recommendations, freeing up the financial markets was one of them. In addition, by rejecting Treasury's recommended 5 percent devaluation, the government was starting the process of breaking with Treasury's influence that was impinging upon government's policy autonomy. **Secondly**, the way Hawke and Keating re-cast their pre-election policy strategy to fit within the inherited budget deficit blow-out presented to the markets a mature and confident government that understood the 'rules of the game'. They still had the stimulus benefit of a massive deficit and were able to amend their plan whilst negotiating the defence lines of caucus—through this process they gained 'permissions' from the market and from within the party. **Thirdly**, the government gave Treasury the opportunity to prove the veracity of its advice when it went with their partial-float (forward-rate) strategy in October. This had followed over six-months of constant unbated currency market pressure, which Stone had flippantly called a 'temporary phenomena' that could be out-gamed. The failure of this strategy weakened Stone's credibility with the government, and it was telling that it was Keating with Johnston, the Governor of the RBA, who announced the float. It reduced Treasury's influence, whilst increasing government's policy autonomy and gave rise to another source of policy advice, the RBA. Which would not have fazed the international financial markets,

in fact the rise of the RBA was seen as positive. **Fourthly**, the float and financial market liberalisation. The float was a positively reactive response to speculative forces that passed power back to government and re-set boundary lines, foreign exchange liberalisation simplified the system and met Hawke and Keating's goals of improving the efficiency and effectiveness of the currency market to the benefit of Australian trade, and banking sector liberalisation introduced competition that they believed would increase choice and as Keating described make banks creators not rationers of credit—all strategies that extended the government's policy autonomy to achieve their broader goals.

The events of 1983: from the election; the discovery of the budget deficit blow-out; the devaluation; the modification of Labor policy to fit within the inherited deficit; the relentless currency speculation and the conflicting (and sometimes dogmatic) points of view of the 'experts'; all against a political-economic backdrop of an economy subject to damaging stagflation, illustrates a complex interplay. One between endogenous elected actors working to assert power and deploy authority to set the agenda, and exogenous forces influencing that agenda for their own pecuniary end or ideological gratification, whilst working withing a policymaking infrastructure and bureaucracy of differing ideologies and experience, for example 'the Treasury line'. The Hawke government challenged the existing boundary lines that had been set by a combination of the inherited economic conditions, the ideological and experiential stance of the Treasury and the inexorable forces of the international financial markets. The outcome was a realignment of boundary lines, that in Keating's words (Edwards 1996, 287) allowed the Hawke government to control the agenda, at least until 1986. By 1986 exogenous events were again to challenge policy autonomy, at least as perceived by Keating but less so by Hawke (1994, 369–74), and it would take time for the government to re-establish control and re-set the agenda. The period from 1986 demonstrates a further palpable transitioning of policy autonomy. The transitional signal was the banana republic reference by Keating, which despite the later debate over the external balance after the float, was an attempt to extend government's policy autonomy by addressing Australia's structural economic weakness in the global system.

Conley (2023, 3), referencing Kevin Rudd from 2009, summarised the re-stated policy boundary lines under the Labor governments from 1983:

The Hawke and [subsequent] Keating governments effectively harnessed market forces while developing a regulatory framework, which managed risk, corrected market failures, funded and provided public goods, and pursued social equity. They did this, Rudd stresses while maintaining 'a consistent position of the central role of the state'.

This is a far cry from the diminished neoliberal construct of a nation-state envisaged by neoliberal think tanks (Cahill and Humphrys 2019, 948). Notwithstanding the exogenous forces of the capital

markets and globalising corporations, the Hawke government adapted policy and developed opportunistic “responses to problems, especially those with electoral consequences” (Conley 2025, 108), within an overarching structure of coherent interlocking policies, that re-established a level of progressive policy autonomy not witnessed since Chifley.

Policy autonomy, in a democratic context, is the contextual power and authority to set the political-economic agenda and control macroeconomic policy. As discussed, it works by degree on an ever-changing canvas with moving boundaries, changing permissions and competing priorities. It is not a simple construct. As Beggs (2015, 13) identified: “The relative coherence of modern economic policy, across multiple branches, is an achievement that should not be taken for granted.”

PART 4 – Thesis Conclusion

‘How many policy levers are left? There was a time 20 years ago when treasurers could adjust the exchange rate, shift protection levels, manipulate interest rates, change fiscal policy to control demand and influence the Full Bench on wage outcomes. What can they do now? I vividly remember Treasurer Keating’s deep pre-occupation with the levers of economic policy, a word rarely used these days.’

Paul Kelly, speaking at the RBA 2000 Conference, (2000, 233)

Introduction

Policy autonomy, as a construct for Australian governments, was a product of both the post-Second World War Bretton Woods system and the foundation of macroeconomics as a wholistic and cohesive discipline of economic management. From being a shared multilateral goal of nation-states from 1947 to 1973, epitomised by international cooperation during postwar reconstruction and the ‘long-boom’, with the end of the Bretton Woods system the policy autonomy construct transitioned to a unilateral aspiration of individual nation-states—with mixed outcomes. Post 1973, nation-states sought to find policy frameworks that would allow government the policy autonomy to meet their specific domestic political-economic agendas in the face of growing and evermore invasive exogenous forces and events, such as endemic stagflation, the development of the capital and currency markets, globalisation, changing economic ideologies, and shocks such as the oil crises. From enjoying relative policy autonomy from 1947 to the early 1970s, Australian governments then struggled to find a workable mix of policy structures to maintain policy autonomy until 1983, when the new Labor government’s policy platform demonstrated a sustained level of reformist political-economic autonomy not seen since the late 1940s.

To give form to the abstract construct of policy autonomy the thesis draws from the work of Jan Tinbergen and defines policy autonomy as policymaking that resides within an ‘endogenous zone’ of power as delineated by ‘lines of resistance’ being ‘boundary conditions’ and ‘defence lines’, collectively called ‘boundary lines’. One side of the boundary line are *non-elected actors* and exogenous forces and events that create resistance or limit policy autonomy. The opposite side is the home to *elected actors* and is the endogenous zone of government action (policymaking) and internal tensions (priorities). Government can re-set boundary lines to extend the scope of policy autonomy where they have *permission* from non-elected actors, such as the electorate or financial markets.

Set in the political-economic context of 1947-1986, the thesis argues that boundary lines were under constant pressure from changing exogenous forces and events, and endogenous actions and tensions requiring skilful political-economic management to preserve the policymaking freedoms that policy autonomy vests in elected actors.

To summarise the novel contribution of this thesis to current thinking, I highlight the following areas:

- The concept of a theoretical framework distinguishing between endogenous actions and tensions on the one hand and exogenous forces and events on the other. This framework provides a contemporary home for components of Tinbergen's policymaking canvas (see next point) and provides a basis to categorise political action as proactive or reactive in determining the policy autonomy of the government executive.
- The extension of Tinbergen's identification of 'lines of resistance', 'boundary conditions' and 'defence lines' into the above framework, which illustrates the power of Tinbergen's insights that mesh a socio-political dynamic with macroeconomic policymaking.
- The concept of 'permission' relative to extending the reach of policy (as a proxy for extending policy autonomy) that is either granted or denied by those exogenous forces, or even competing endogenous elected actors. This was not explicitly stated in Tinbergen's work and to some extent this is covered by the notion of 'capacity' in state-theory, but I contend that the term 'permission' creates a clear relationship between the endogenous and exogenous parties that must be managed. And as I propose in the thesis, based on the case study of the early Hawke government, 'permission' must be proactively and positively managed to establish and preserve policy autonomy.
- Many scholarly works that I have reviewed and referenced tend to think of government as a unified agent. In this thesis I have taken a different perspective, inspired in part by the works of Pusey and Bell, and separated the elected actors in government from the non-elected administration. Whilst policy formation comes from a synthesis of these two groups, the role and influence of the non-elected administration has a marked bearing on the ultimate policy autonomy sought by the elected actors of government. I have further refined the elected actors in government to those in the executive or cabinet, in other words the leadership. These distinctions are critical is one is to truly understand effective policy autonomy of the elected leadership of the state. This situation was well illustrated in the case study in Part 3.
- Finally, the historical analysis from 1947 to 1986, and the case study of the actions, tensions and events leading to the 1983 float, that are viewed through the above theoretical framework is unique and provides insight into why policy autonomy should not be equated with mere freedom of action that is associated with early concepts of neoliberalism. Policy autonomy has to be created and maintained through political will and skill, it is not a given. A view shared by many state-theory scholars.

Why is policy autonomy important?

Prior to the Second World War the ‘beggar-thy-neighbour’ / ‘race to the bottom’ tactics of some nation-states had contributed to the Great Depression. So, by acknowledging the unique political-economic needs of individual nation-states, and providing protections to facilitate nation-state policy autonomy, such as fixed exchange rates and capital controls, postwar economic reconstruction could be more effective across multiple economies. The goal being a win-win for all nation-states, as Keynes may have said, leading to a relatively stable international economic order.

With reconstruction complete the role of policy autonomy remained a critical component of national political-economy and the democratic construct. Not only to ensure that specific domestic economic needs could be addressed, but also in ensuring the workings of the democratic process and the authority of elected actors over the power of non-elected actors.

...

From the outset policy autonomy under the Bretton Woods system could be seen as a paradox as it was both a trade-off and operated within a context of policy boundary conditions and defence lines. It was a trade-off in that member-states gave up their power over their exchange rate, supported by multilateral capital controls, in return for all other member countries doing likewise, thus creating exchange rate certainty to facilitate trade, economic reconstruction, full employment and other nation-specific societal policies.

As reconstruction progressed following the end of the Second World War economic power shifted between nations and new systemic dynamics emerged, such as the financial markets, that would undermine multilateral postwar cooperation that had facilitated national policy autonomy. McKinnon (1993) presented a case that policy autonomy was not a constant for advanced nations, with the US dominating the power to achieve policy autonomy, other nations achieved it by varying degrees and at differing times, as relative political-economic power shifted. Ultimately even the US, and large economies such as those of the UK, France, Germany and Japan, could not guarantee constant autonomy over macroeconomic policy, let alone ‘peripheral’ economies like Australia. The fundamental point here is that timing is everything and for government it cannot be assumed that a window to enact policy will correspond to political needs, as Paul Keating reflected in December 1991, “Up to 1986 we controlled the agenda, and then we did not” (Edwards 1996, 287).

The three phases

In the thesis I divide the postwar period to the mid-1980s into three discrete phases that illustrate the dynamics of policy autonomy.

The postwar period of the 1950s and 1960s were somewhat misleading, and can be said to have lulled some Australian politicians into a false sense of being in control—as borne out by the Vernon Committee that identified the need for improved planning and forecasting, and a new Advisory Council on Economic Growth (Vernon et al. 1965). That certainly appears the case when tracking the policies and outcomes of the Menzies government and with Australia positioned, both geographically and economically, on the ‘periphery’ of the global economic system. But, as Webb (2019, xi) noted, “By the late 1960s, short-term international capital flows through the Euromarkets had become large enough (despite capital controls) to undermine government’s ability simultaneously to maintain fixed exchange rates and macroeconomic policymaking autonomy”—forces that were starting to wash over Australia. Webb, and others, speculated on the fact that the major economies had an opportunity to re-impose a new order, a new form of Bretton Woods to counter these growing and destabilising capital flows. But instead chose to:

...regain macroeconomic policymaking autonomy by permitting exchange rates to fluctuate and by borrowing and lending on private international capital markets... [But] by the late 1970s, most governments realized that fluctuating exchange rates did not actually permit macroeconomic policymaking autonomy, which became even more apparent with the acceleration of international capital mobility [from] the 1980s. (Webb 2019, xi-xii)

Adopting McKinnon’s vernacular, a new set of ‘rules’ were needed to reset policy boundary lines.

By the late 1970s the power of capital, through the growth and increased sophistication of the globalising financial markets and rise of transnational corporations, challenged social equity objectives in favour of what Gill (1992) called “disciplinary neoliberalism” and its rationalist attitude to capital accumulation. In parallel the transitioning of the US from a benevolent creditor nation-state to an unstable debtor nation-state, weaponised the dollar and destabilised the international financial system with inflationary pressures that led to a transition from multilateralism to unilateralism. Helleiner (1996, 144) concluded, “Having already sacrificed in the early 1970s the commitment to control finance in the interests of exchange rate stability, states had now abandoned the commitment to policy autonomy”—what had been a shared mutually supportive objective. Not to say that nation-states could not, or did not, strive for or aspire to unilateral macroeconomic policy autonomy. In the thesis I explore the period from the Menzies to Hawke governments to illustrate this point, below I summarise the primary policy goals, policy instruments and policy autonomy outcomes for the three periods identified in the thesis:

1. Postwar to early 1970s (Primarily the Menzies government and the late-1960s)

Goals

These were largely inherited from the Chifley government of 1947-50, covering full employment, stable prices, managing balance of payments, and economic growth in the form of nation-building with a diversified economic base. The goals varied in priority over this period as domestic conditions changed driven by a relatively consistent strong world economy.

Instruments

The primary focus was on wages and incomes policies, tariffs, credit controls, with a minimal use of fiscal measures and selective immigration policy to keep pace with growth and minimise wage inflation. The Bretton Woods system of fixed exchange rates and capital controls sheltered the terms-of-trade. Protectionist policies were aimed at sheltering the Australian economy from destabilising exogenous events and foster a Fordist economic environment as part of 'nation-building'.

Policy autonomy

The policy autonomy boundaries were effectively set by the Chifley government and its innovative agenda and were rarely challenged during the Menzies period. It has been argued by many commentators that the Menzies government missed an opportunity to test boundary lines by not being more innovative and setting policies for longer-term objectives to address an economy that was becoming uncompetitive, less sustainable and out of touch with the transitioning global economy. The primitive nature of Australia's banking sector is an example.

2. 1970s to early 1980s (Primarily the Whitlam and Fraser governments)

Goals

The prioritisation of the primary goals changed as stagflation set in, fighting inflation became the priority, followed by addressing both rising unemployment and declining growth. The external balance ordinarily looked after itself due to strong capital inflows and exchange rate management, despite the faltering world economy.

Instruments

The period commenced with the end of the Bretton Woods fixed exchange rate system and weakening of capital controls, and the consequential switch to a fixed then adjustable TWI exchange rate peg. The end of the 'shelter' of the Bretton Woods system, the drift into stagflation and the rejection of Keynesianism due to the rising influence of neoliberalism led to a period of policy *ad hocery* with changing and conflicting policies that expanded and contracted the economy

often at the same time. The transition to monetary targeting to control inflation was introduced in the mid-1970s. During this period wages and incomes policies generally proved ineffective, tariffs were reduced, a limited start to the deregulation of controls over the banks was instigated to increase the availability of credit and protect bank profitability, and there was increased use of fiscal instruments.

Policy autonomy

Policy autonomy was severely challenged during this period with boundary lines closing in as the economy appeared to be at the mercy of exogenous forces and events (e.g., the oil shocks, the end of the Bretton Woods system, increased offshore competition, imported inflation). However, the Whitlam government did strive to introduce an innovative and radical program with limited success in extending policy autonomy. Confusion over policy structures and instruments often led to policy conflict, which reduced macroeconomic policy effectiveness and with it policy autonomy. The Fordism of the 1950s and 1960s began to be supplanted by “flexible production and the peripheralization of economic development, both within and between countries” (Gill 1992, 270), which demonstrated the rising power of transnational corporations’ locational strategies, that impacted boundary lines.

3. Early 1980s to mid-1980s (First two Hawke governments)

Goals

Initially, objectives of reform and reconstruction by simultaneously bringing inflation under control and reducing unemployment through the Accord, and stimulating growth. This was soon modified due to the inherited budget deficit blow-out resulting in a change to the stimulus strategy, and destabilising speculative currency flows that led to the float and financial market regulatory changes.

Instruments

Initially, monetary targeting was maintained as an accepted instrument to support the management of inflation, with a budget deficit to stimulate growth, and the Accord to manage wage inflation, employment and encourage private investment. Monetary targeting fell away after two years as it was unworkable in practice and was more of an ideological token to placate the financial markets. The floating of the dollar had a fundamental impact on future monetary policy instruments (interest rates), its management (the role of the RBA) and funding the external balance. Growth was supported by a Keynesian style budget stimulus which was modified early on.

Policy autonomy

Initially, from a policy autonomy perspective, the inherited budget deficit blow-out limited the new government's application of its Keynesian style policies. The Hawke government chose not to push out macroeconomic boundaries whilst the economy was brought under control, but work within what they had inherited. However, the float created a window for policy autonomy as it neutered destabilising speculative inflows for a year, freed up the foreign exchange market (a benefit for a trading nation), and the opportunity was taken to free up restrictions on credit to boost investment, notably in the housing sector.

In due course the government did push out policy boundary lines and extended policy autonomy reflected by its new social policies, such as re-structuring Medicare, expanding education and introducing occupational superannuation. By this time 'permission' had been granted both by the financial markets in the way they lauded Keating and by the electorate with Hawke being re-elected in 1984 (and subsequently in 1987 and 1990). However, the systemic terms-of-trade issue (i.e., international competitiveness and structure/composition of Australian industry) would press in on policy autonomy and it was not sustainably mitigated by the floating dollar, which went into free-fall in 1985-86. This issue and its impact on the balance of payments was to trigger Keating's belief in a loss of policy autonomy and gave rise to the banana republic comment in 1986. Later, Professor Pitchford challenged the extent to which the external balance was a real issue or merely a construct of outdated economic thinking. Nevertheless, for the second half of the 1980s, the government was restricted by what it perceived as constricting boundary lines largely of its own making.

The endogenous actions and tensions from 1983

In Part 3 of the thesis, I explored the endogenous actions and tensions leading to the December 1983 float. It highlighted the distinction between the elected legislator and the non-elected bureaucrat in the face of exogenous forces, and also the blurring of the roles and power of these actors.

What is evident is the significantly differing points of view between the new government and Treasury leadership and to what extent was this driven by professional or experiential differences, ideology or an embedded process—"the Treasury Line"? (Whitwell 1986). Constructive debate and consensus building between elected legislators and bureaucrats is part of the process of policymaking, however, as was illustrated the position taken by the bureaucrat can act as a defence line and impact the policy autonomy of government. One notable example of this was the

consistent overvaluation of the Australian dollar by Treasury from the late-1970s and how this was gamed by the currency market in 1983 (Pagan 1987, 128). But what is also highlighted by the examination of this period is the political dexterity and opportunism of the Hawke government to re-set inherited policy boundary lines and extend the scope of policy autonomy once they broke with the Treasury line.

One policy change that was hatched at the time of the float in 1983, but not implemented until 1985, was a profound illustration of the expanded policy autonomy of the new government. It related to the granting of banking licenses to foreign banks, which was not just about stimulating retail banking competition, but effectively allowing foreign access to domestic deposits. Pauly (1987) saw this as having deep ramifications on economic policymaking and management, competitiveness in the market, and perceptions of national sovereignty that impacted political authority. In 1986, Louis W. Pauly was completing his Ph.D., on international banking which included research on the entry in 1985 of foreign banks into Australia. In his subsequent publication, he considered the context of political-economic decision-making relative to policy autonomy, an insight relevant to my conclusion:

For both governments [i.e., that of Fraser and Hawke] the policy finally adopted never appeared unavoidable...Although the context in which that policy evolved was indeed partly shaped by external events, exogenous economic and technological change, and the logic of late-twentieth century capitalism, neither its trajectory nor its details were inevitable. In the end, the structures of its markets, the institutional relationship between those markets and a strong state, and the idiosyncrasies of domestic politics decisively altered policy which might have appeared inexorable to a latter-day Adam Smith restricting his view to the position of Australia within the new international division of labor. (ibid., 2)

Pauly (ibid., 4) argued that despite the internationalisation of financial markets from the sixties to the eighties, national markets had in no way disappeared through “some kind of inexorable economic process”. The nation-state, and its institutions, continued to inhabit that space between “transnational economic forces and national market realities”. This was manifest by national political and legal structures, relationships, and norms, that “mediate between common systemic pressures and acceptable policy outcomes.” Furthermore, despite the exogenous forces of globalising financial markets, “It nevertheless remained true that national governments retained preponderant influence over the political architecture of their own domestic banking markets” (ibid., 5). This architecture reflected the unique characteristics and relationships within that nation-state’s political-economic and policymaking environment, and in Pauly’s view nowhere is this more palpable than in the rules established allowing foreign bank entry into, and behaviour in, the domestic Australian market in 1985. Pauly (ibid.) adds that whilst, “Pressures emanating from markets themselves may initiate policy change...in the end regulatory authorities must define the conditions under which foreign penetration may occur”.

In contrast to Pauly's focus on the banking sector, Bryan and Rafferty (1999, 17) proposed that, "The tension between global and national is even stronger with respect to labour." They argued that despite labour's relative immobility internationally this "does not preclude a global discipline on labour" with the consequence that labour "has had imposed on it the costs of national economic adjustment to global accumulation. Labour is, therefore, both national (in its location and culture) and international (in the competitive pressures that determine employment). But global discipline does not eradicate the national dimension". Bryan and Rafferty (*ibid.*) concluded, "The combination of ongoing national processes within a global scale of calculation means that the national scale is constantly being reconstituted at the same time as it is being challenged." An affirmation of the state of flux of boundary lines, and the changing reach of policy autonomy.

...

Pauly's, and Bryan and Rafferty's, acknowledgement of the autonomy of government within policy boundary lines is shared by Strange (2000) who recognised there is a trade-off for nation-states as the price paid to be a member of the global trading community—just as there was a trade-off to be a member of the Bretton Woods system. The degree of trade-off required would appear to relate to the relative political-economic strength of a nation, which is not a constant. As has been discussed the exogenous forces that impact policy autonomy boundaries come from many quarters, including the policies of other nation-states, rationalist or 'disciplinary neoliberalism' ideology embedded within the financial markets, the systemic local impact of transnational corporations, and the socio-political sentiment within a nation that grants a political mandate to government. However, it is not all one way, as Gill (1992, 278) identified "the continuing systemic weakness in the sphere of global finance" will impact policy autonomy at a national level, as the nation-state has ultimate responsibility for the financial sector and has the power to shape it. Just as nation-states have ultimate responsibility over corporations—that have a history of fallibility. These counterforces echo Pauly's conclusions above. In other words one can regard the exogenous forces as themselves being inherently unstable, prone to fall in on themselves, with the ultimate constant being the nation-state itself and the inherent power of the nation-state reflected by its degree of policy autonomy.

In terms of the ideological pressures on policy autonomy I turn to Damien Cahill's conclusions regarding neoliberalism in practice relative to its theory, noting that neoliberalism has embedded deep within it rationalist economic theory. Cahill (2014, 14) used "the concept of 'actually existing neoliberalism'...to highlight the discrepancy between the utopian visions of neoliberal theorists and the realities of neoliberalism in practice." In Beggs' (2015, 9) view, "Actually existing neoliberalism' is not a reversal of the postwar commitment to state economic management, and

nor has it diminished the capacity for that management: it involves a realignment of its structures and strategies, a rationalisation.” As many scholars (in addition to Cahill and Beggs) have pointed out, under so-called neoliberal or rationalist ideas “there is no sign of a shrinking state, as measured by government expenditure relative to gross domestic product” (ibid.). Not to say the apparatus of the nation-state, as personified by the bureaucracy and its embedded ideologies, cannot seek to challenge the authority of elected actors which was illustrated in Part 3 regarding the process to float the Australian dollar. In that example it came down to real political will to establish policy autonomy in the face of structural, yet fractured, bureaucratic resistance established over many years (Pusey 1991).

The political-economic system is constantly evolving, through exogenous forces and events, and endogenous actions and tensions, a concept that is not necessarily recognised or acknowledged by those seeking universal laws or models to dictate economic decisions (Beggs 2015, 6). Policy autonomy, as a postwar construct was established within boundaries that define a line of resistance (Tinbergen 1967), and those boundaries never disappeared, they evolved. Policy autonomy does not exist outside those boundaries, no matter the views of politicians and policymakers who, from time to time, bemoan limits on policy autonomy (their ‘levers of power’). In Australia’s case, policymaking over the forty years to the mid-1980s illustrated the dynamics between government and policy autonomy, from a position where policy autonomy boundaries were established following the end of the war under Chifley and into 1950s, to where they were not strategically challenged (the 1960s), to one where policy autonomy was becoming restricted (the 1970s), and to one where policy autonomy was being extended, but under a latent threat (the 1980s).

...

This thesis started with a reference to British MP Tony Benn’s levers of power which were a chimera to him in 1974 because he was looking beyond policy boundary lines and failed to achieve the requisite ‘permission’ or acknowledge both Swan’s “political algebra” and McKinnon’s *Rules of the Game*. Whereas Kelly writing in 2000, argued that these levers did once exist but had faded. However, I am more inclined to agree with Paul Keating’s observation, in his temporal ‘loss of control’ reference (Edwards 1996, 287), that policy autonomy is a reality within policy boundary lines but there are constant forces working to redefine those boundary lines, shrewd politicians (elected actors) recognise this, and it is a matter of which side of the boundary line policymakers operate that determines if policy autonomy is a reality or a fiction.

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Appendix B – First-year cost of Labor’s National Recovery & Reconstruction Plan

Notes		\$ Million
a	General public works	400
b	Tax cuts (revenue foregone)	630
c	Cut in oil prices (revenue foregone)	360
d	Social security	420
	Employment:	
e	Community works program	320
f	Private sector assistance program	80
g	Housing	235
h	Education	110
	Other	195
	Total	2,750
	Financing:	
	Revenue from anti-tax avoidance	750
	Reduced unemployment benefit payments and increased tax receipts	500
	Increase in the budget deficit	1,500
	Total	2,750
a	Keynesian style accelerated public works program - urban and regional	
b	Tax cuts for low and middle income earners, and small businesses	
c	To reduce consumer petrol prices and the CPI rate	
d	Increases in pensions, welfare and unemployment benefits	
e	Specific program to help the unemployable	
f	Incentiving the employment of young people	
g	Housing affordability support	
h	Increased investment in school infrastructure	
	Other economic programs in policy announcement	
	Tax reform - increase equity and reduce evasion	
	Housing - Fund to assist with affordable mortgages, regulating banks and building societies to cap mortgage interest rates and require an allocation of funds to new housing	
	Health - introduction of a new Medicare program based on an "income-related levy", that will also reduce the rate of the CPI	
	Arts - including increased support for the ABC, other arts initiatives and support for publishers	

Source: Transcript of Policy Speech, Federal Election Campaign Launch, Sydney Opera House Theatre, 16 February 1983.

https://manifesto-project.wzb.eu//down/originals/63320_1983.pdf