WILL THE SOUFFLÉ RISE? AUSTRALIAN BUSINESS RECIPES IN THE NEW WORLD ECONOMIC ORDER*

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Public policy in the field of economic development in Australia is increasingly focussed on micro-economic reform and, particularly, on reform of the labour market. Over the very recent period some key policymakers have been pushing Australians also to rethink their perceptions of their socio-economic and geographical position in the world and to recognise the realities of the emerging economic order. The broad Australian business recipe is inappropriate for successful participation in the 'third wave' of capitalism which has shifted the locus of economic power to the Pacific region. The new recipes devised must not simply rely on deregulation but include reregulation of a more appropriate kind, with much greater emphasis on positive development assistance, on the diffusion and creation of new technologies and on a reform of institutions which retains the social protection essential to prevent the marginalisation of those who are adversely affected by the necessary transformations.

Keywords: Industry assistance, micro-economic reform, new technologies, Pacific capitalism, public policy.

INTRODUCTION

Public policy in the field of economic development in Australia is increasingly focussed on micro-economic reform and, particularly, on reform of the labour market. Over the very recent period some key policymakers have been pushing Australians also to rethink their perceptions of their socio-economic and geographical position in the world and to recognise the realities of the emerging economic order. For Australia, this re-ordering of perceptions means recognising fundamental shifts in the location of world economic power. If Australia is to maintain or improve its standard of living over the long term much will depend on how well it can lock into the new pattern of trading relationships of its own region. It is the argument of this paper that the narrow perceptions of policies for economic development currently predominant may not be enough to allow fast or effective enough change. This is because Australia is not only an 'Anglo-Saxon' nation in its dominant language and political institutions but also in the overall

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'business recipe' devised over the last century. Emphasis on the reform of the labour market is far too narrow a focus.

The broad Australian business recipe is inappropriate for successful participation in the 'third wave' of capitalism which has shifted the locus of economic power to the Pacific region. While the USA is a major player in that arena, the emerging concentration of economic activity is clearly located on the other shore, in north east Asia. Australia lies at the southern tip of what is now the world's major development block. New business recipes may have to be devised if the goal is joining that development on terms which allow Australia a reasonable level of partnership rather than dependence.

The new recipes devised must not simply rely on deregulation but include reregulation of a more appropriate kind. They must include much greater emphasis on positive development assistance, on the diffusion and creation of new technologies and on a reform of our institutions which retains the social protection essential to prevent the marginalisation of those who are adversely affected by the necessary transformations in order to avoid the social disintegration, with all its attendant miseries, now apparent in the UK and the USA, the other two nations with 'Anglo-Saxon' business recipes and which have followed the simple deregulation model.

Discussion below first presents the context of the decisions which need to be made and outlines the position of Australia in the new economic order. It then presents the areas of the dominant business recipe or system which make adjustment more problematic than in countries with different configurations of the basic ingredients.

'PACIFIC CAPITALISM'; AUSTRALIA IN THE NEW ORDER

The era of Pacific capitalism has seen world economic power shift to the countries of north east Asia. Japan has become the world's richest nation and second largest economy, providing more than a tenth of world economic activity and 15 per cent of total production, and the world's largest source of capital. The success of Japan's internal industrial policies has made the country into a technological powerhouse in its own right and the leader in many of the technologies of the future, giving it a technological superiority likely to ensure the country's continued dominance for at least the next few decades, despite the troubles of the early 1990s. If the world is beginning a second industrial revolution as has been suggested by numerous observers, Japan will play a major role in the creation of the new techno-economic paradigm[1] because of its enormous superiority as a manufacturing nation.

Japan has also consciously been the spearhead of economic development in the region[2]. Starting with the countries nearest, the Republic of Korea (ROK) and Taiwan, Japan provided both the capital and export markets and the model of state-led development which powered much of the extraordinary economic growth of these two nations over recent decades. More recent activities have moved further south, centering on the new sources of cheap labour and resources of Thailand and Malaysia and playing an important role in the rising rates of economic growth recorded there.

As a result of these activities and of local favourable domestic policies which have encouraged savings and firm monetary control, keeping domestic demand down, Taiwan and ROK have joined Hong Kong and Singapore as the four Asian Tigers. Indeed, the Republic of Korea is now the sixteenth largest trading nation in the world. The western Pacific thus now includes three countries with a capital surplus and north east Asia has become the region of the world with the most disposable capital. While the standards of living of the general population in the four Tigers are not yet high in comparison with those of the West they are rising fast and recent steep increases in the level of inflation in these countries (inflation recently reached 12 per cent in Singapore and is around the same in Taiwan) indicate the unleashing of a consumer boom and a new affluence.

Partly as a result of Japanese strategies the region of the western Pacific north of the equator has also become much more internally integrated and shows signs of becoming a *de facto* trading bloc. Trade flows between the countries of the area have increased dramatically. While the following figures include the major economies of the other side of the Pacific and the smaller ones of Australia and New Zealand, it is still clear that trade between the countries of the east Asian region is very important. The region as a whole increased its share of world trade from 30 per cent to 37 per cent between 1965 and 1988 but, more important here, the proportion of *intra*-regional trade grew from 50 per cent to 64 per cent. As Drysdale has pointed out, this proportion of intra-regional trade is close to that of Europe — 64 per cent in Asia-Pacific as against 71 per cent in Europe[3]. Trade in goods is also not the only link between the nations of the region. Australia's Department of Foreign Affairs and Trade has indicated, for example, that structural change in the region has increased local links through investment, tourism and, most importantly, through financial flows[4]. The power of the region as a whole is indicated by its accounting for over half of the world's economic output and more than a third of world trade.

For countries in the region, and especially Australia, two sets of important questions arise from the new economic concentration. The first set concerns the ways in which Japan and the United States will resolve the trade imbalance between the two countries, particularly the degree to which the threat to American manufacturers posed by Japanese superiority is met by increased protectionism[5]; and how far Japan will change its policies of lowering the protection of its strategically important industries only when that protection is no longer needed[6], and relying heavily on a series of informal barriers to imports such as its internal distribution system and quality regulations.

The second set of questions concerns the degree to which the success of Japan's internal manufacturing system depends not only on national policies of strategic investment and development but also on its relation to its external markets and particularly to the countries in its immediate region which are sources of raw materials, cheap labour and export markets. In other words, the question arises of how far the Japanese business recipe now extends beyond its borders, linking internal manufacturing and distribution arrangements, domestic government policies and external relationships. This is crucial because Australia is located at the southern most tip of the development corridor dominated by Japan so that many of Australia's own development policies will be shaped by the dominant players of the new age of Pacific capitalism.

Australia in the western Pacific economy

The importance of the new world economic order described above is hard to overestimate for Australian economic development as is the degree of rethinking required. Although Australia is now the second most multicultural country in the world in terms of the diverse origins of its population it remains nonetheless a nation with strong Anglo-Saxon political, economic and social traditions, located — with New Zealand — in an area of quite different cultures, religions, political systems and levels of economic development. The region as a whole is very diverse, including not only the giants of north east Asia but also the dwarves of the Pacific, not only the world's second most powerful economic actor but also the world's largest communist country, but it is with countries on the *east* of the central ocean, the United States and Canada, that Australia has traditionally had close ties. In contrast, it is, with the *west* of the Pacific that she must now develop close relations: and since Australasia is only a middle level economic power, unable to impose her interests, much will depend on her ability to persuade her partners to accept the views that she puts forward.

A few figures illustrate the extent to which Australia's economy now depends on her Asian trading partners. Australian Bureau of Statistics data presented in Treasury's *Economic Round-Up* of Winter 1991 show the enormous importance of Japan as a trading partner. In 1989-90, 26.1 per cent of all Australian exports were destined for the Asian giant, making Japan by far the biggest single market for Australian products, including manufactures. Japan is the principal destination for key mineral and agricultural products such as coal, iron ore, wool and beef as well as being a significant and growing market for some manufactures and services (tourism in particular). In return, Japan has become increasingly important as a source of capital (direct investment) as well as of the high technology products, especially machine tools and computing equipment, crucial to the modernisation of Australian industry.

Australia's dependence on the economies of the north west Pacific as a whole can also be seen in the significance of the four Asian Tigers. The NICs together account for 15.4 per cent of Australia's export markets, the same proportion as the European Community. In comparison, the USA is only of relatively small importance, absorbing only 10.9 per cent of Australia's exports in 1989-90. New Zealand is only a very small market and the UK, once so vital to Australia, now rates lower than Singapore. Together, then, the capitalist countries of north east Asia account for more than two fifths of Australia's export trade.

What, then, may the relationships between Australia and the region's rich countries be expected to be? Some commentators are optimistic. Garnaut[7] emphasises the fortunate complementarities between the needs of Australia's powerful northern neighbours and the strengths of the Australian economy. He argues that these complementarities will be long-standing as they cover all the stages of economic growth, starting from the natural fibres used by the textile industry, continuing into the period of heavy industrialisation in which huge quantities of minerals are needed and then remaining valuable once a mass consumption stage has been reached when people demand the high quality foodstuffs which Australia produces in abundance and the less densely populated and relatively pollution-free environment offered. Garnaut even sees some Australian manufactures as acceptable to the growing Asian countries and to a limited extent this is already apparent[8].

Many problems, however, remain with this focus as the only ingredient in the recipe for Australian economic success. The first concerns the extent to which a country dependent on raw materials and tourism — a beds, beaches and holes-in-the-ground economy — can maintain in the long run the high standard of living expected by the Australian population. So far no country has shown the way in this and since as countries get richer they use fewer raw materials the prices of commodities show a secular trend downwards. More important perhaps, the transformations brought about by the new core technologies of microelectronics, new materials and molecular biology are creating pervasive new technologies for the industries of the future, reducing further and faster the need for many Australian commodities. It is essential therefore that if Australia is not to become the 'poor white trash of Asia', as the Malaysian Prime Minister once threatened, the country find a more stable industrial base and be able to participate in the development of the tools of the second industrial revolution.

Furthermore, as a small industrial country Australia confronts particular problems in technology development because of the scale of the resources now needed and may need to look towards other small countries in the search for new paths to follow in the 'international restructuring race'[9]. There are few models to emulate. The key may be the management of economic relations with Japan, as Garnaut suggests, but this will involve far-reaching policy changes by Japan and is thus an area over which Australia has little control. As mentioned earlier, in part the difficulties of the new situation stem from the recipes developed over the last two centuries in Australia and it is to these that greater attention must be paid.

BUSINESS RECIPES IN AUSTRALIA AND THE REGION

Analysts of the economic growth of Asian countries have pointed to many different aspects of the reasons for their success and the particular mix is different in each country. Some concern the role of culture and particularly Confucianism in the growth of Asia's distinctive industrial forms[10] while others focus more particularly on the organisation of production at firm and factory level[11]. Another concerns the role of the state in organising capital flows, assuming and imposing strategic directions for development and sharing or reducing the entrepreneurial risks faced by business[12]. Yet others focus on the family-state interactions so important for instance in Korea[13] and on the nature of the Chinese family businesses organising economic life in Hong Kong and Taiwan[14].

Building on these analyses, Redding and Whitley[15] have developed the notion of business 'recipes' as a tool of analysis. In recent papers, Whitley[16] has refined the notion to describe particular configurations of four crucial elements. These are: the nature of firms and the mechanisms of their growth; the organisation of markets; company employment and personnel practices; and enterprise authority relations. The dominant business recipes in any society are thus particular configurations of market-hierarchy relations and include as an increasingly important element, the relations between business and the different arms of the state. To these one should also add the importance of relationships developed with the external world, the relationships of foreign trade and the ways in which these interact with internal business recipes. Adding this element broadens the analysis to include questions of relative international state power as a key to a new development path.

Different from her Asian neighbours, Australia has also not developed the bargaining institutions of the small European countries which have long allowed them to prosper from their open economies and to avoid continual major social dislocation. The small countries of Europe have developed their own distinctive strategies for coping with their relative lack of international power. Unable to resist pressures from large players, their open economies must cope with quite considerable fluctuations in demand for their products and undertake frequent economic restructuring with the associated problems of employment relocation, retraining etc. Katzenstein[17] has suggested that to cope with their economic vulnerability the small European countries have created strategies of 'domestic compensation' for the sections of the population adversely affected. They have developed corporatist domestic political arrangements in which tripartite institutions and proportional representation-based bargaining systems enable 'low voltage politics' and peaceful social bargaining as new issues arise. The result is a high standard of living based on the free export and import of manufactured goods and services *but also* a high level of social protection covering the associated social risks and a very different business recipe from that dominant in Anglo-Saxon nations.

While the equilibrium reached through these policies is now, however, under increased threat in much the same way as Australia's and advances in technology and the ensuing economic benefits are increasingly dominated by large companies and large countries[18], Australia may still want to learn from their experience.

The present paper argues that the central ingredients of the business recipe developed in Australia make it peculiarly difficult for the country to make the adjustments both to the new problems of the 'small countries' and to the new regional economic situation necessary to maintain a high standard of living. First, Australia is caught with a set of institutional arrangements and political ideologies which mean that the state can take only a decreasing role in setting strategic directions for economic growth while it is also caught in the small country squeeze. Second, the economy is being opened to an extremely competitive world trade environment at the same time as its domestic welfare politics, those termed by Frank Castles[19] the 'politics of domestic defence', rather than those of 'domestic compensation' developed in small countries in Europe to ease the process of adjustment, lend only small, and decreasing, amounts of public support to the population groups adversely affected. Moreover, the policy road now embarked on which encourages even more gaps to appear in local chains of production may well weaken Australia's industrial and technological base since the close relations between users and producers so necessary for successful innovation in both product and process will be absent.

The structure of the economy, moreover, and particularly the structure of ownership of the productive apparatus gives little local control. While the government may be looking to north east Asia for economic salvation the owners of the economy are largely multinational corporations headquartered not in Asia but in Britain and the USA. The major economic players, therefore, are applying Anglo-Saxon business recipes to a weak industrial economy in the Pacific when manufacturing and technological advance increasingly derives from Asia. Australia is thus caught at the apex of an uncomfortable and internally contradictory triangle: socially, politically, organisationally and proprietorially the country looks across to the eastern Pacific and Europe while in terms of trading partners it must look north. A weak, and increasingly powerless, state combines with a 'foreign' industrial base in a recipe which has been tried nowhere else. The strength of Australia's political voice in the region is currently supporting the economy: over time, however, that position must be reversed. The following sections spell out the configuration of the different ingredients of the business recipe as they appear in Australia.

The state and the economy

One major ingredient of business recipes as defined by Whitley is the role played in economic development by the state. In Australia the state is being pushed back out. For the first 150 years or so of European settlement in Australia much depended on large scale public action and on the direct participation by public institutions in investment and the delivery of marketed output on a scale that was rare in the western world. From the 1930s, however, this period of 'colonial Socialism', as Butlin and his colleagues[20] term it, was phased out and policy changed direction. Direct intervention in production, capital attraction and product distribution was replaced by a system of tariffs and quotas, used after the 1950s to attract massive foreign investment with the promise of high protection. Following a policy direction essentially the reverse of that of the small European states[21], Australia has developed a strong, efficient, low-cost, capital-intensive, world-competitive agriculture and minerals sector accompanied by perennially infant industries.

The result is an economy where industry is both highly concentrated in a few firms in all crucial sectors and one that is largely foreign-owned, a position worsened by the entrepreneurial 'cowboys' of the 1980s. David and Wheelwright indicate the very considerable extent of foreign ownership: by the early-to-mid-1980s almost half of the mining and mineral processing sectors (45 per cent and 46 per cent respectively) were foreign-owned as were almost one third of all manufacturing (32 per cent) and nearly two fifths of the financial sector (38 per cent). These figures also do not indicate that almost *all* large companies were controlled from overseas by the end of the 1980s[22]. A more detailed sectoral analysis, for instance, reveals that all seven of the large pharmaceutical companies, all automobile assemblers and 18 out of their 20 top suppliers[23] are now foreign owned while in the computing hardware industry only one significant player has ever been Australian. Even the food sector, a great hope of the Garnaut report and currently responsible for 20 per cent of exports, is now dominated by British and American multinationals. Foreign ownership matters both because it means that much of the economy is beyond the control of the government and hence relatively impervious to local policymakers and also because an enormous pecentage of the profits flow overseas. By the 1960s, one third of all profits were despatched overseas[24]: by 1989 the repatriation of profits was almost half as much again as the payment of interest on the foreign debt[25]. The profit component has virtually doubled in the last four years while the widespread practice of internal price transfers by multinational corporations now includes the low profit practice of the Japanese trading houses — part of the new wave of Asian investment in Australia[26].

A further effect of overseas control of crucial areas of the economy is the low level of private sector R&D, particularly D, undertaken in

Australia which is particularly problematic when technological changes, both physical and organisational, are so important as to cause observers to speak of a new techno-economic paradigm[27]. Dependence on overseas decisions also reduces further both the degree and speed of diffusion of high process technologies and leading-edge product development[28]. Even such mild policy measures as 'offset' agreements to increase local content (vaue added) to foreign manufacturers' operations in Australia have proved unenforceable in key areas such as aerospace and the information industries.

Development of concerted industrial development policies is also problematic because Australia is a federal system, a Commonwealth of six States, two Territories and a central government, where much policy-making is dominated by the division of powers, by the electoral politics of each State and by a very short — three year — electoral cycle at federal government level.

The constitutionally-determined division of powers between federal and State governments has two major effects. It constrains federal policy-makers because there are many areas in which the levers of policy implementation and changes of direction are only available at State level, leaving the Commonwealth government with only the blunter instruments of policy direction. These include essentially trade-related areas, notably the manipulation of tariffs and quotas, areas of fiscal and monetary policy, essentially tax and interest rates, and foreign investment review. Stretching its trade-related powers, the Commonwealth has been able to make modest forays into areas more directly related to enterprise expenditure, such as the encouragement of R&D (through taxation) and even technological change and venture capital through joint Commonwealth and State schemes, but these initiatives remain very limited. Governments in Canberra have down-played any notion of strategic economic intervention, usually presented as the risky game of 'picking winners', in favour of the creation of a 'level playing field'. The focus of micro-economic reform is thus removal of obstacles to entrepreneurial initiative rather than providing assistance to level the playing field between countries, an arena much 'tilted' by overseas trading partners. It thus does little to reform the business recipe in a more positive manner.

Policies are not only developed by government but also by senior public servants. Policies developed in Australia show the dominance of certain departments of state — Treasury, Finance and the associated departments such as those of Foreign Affairs and Trade and Primary Industry and Energy and policy advice bodies such as the Industries Commission. A recent study by Pusey has shown how powerful, pervasive and entrenched are liberal economists in the upper echelons of these powerful Ministries and how little competition there is to their ideas from other areas of government[29]. The Department of Industry, Technology and Commerce and the Prime Minister's Science Council, while they have some small successes, are relatively without influence.

No countervailing elite corps of policymakers, drawn from a high level educational institution, such as the Ecole Nationale d'Administration in France, exists.

Deregulation at Commonwealth level, however, has paradoxically pushed State governments to draw up more interventionist strategies for local economic development. Believing that macro-level deregulation, at least in the short-term, has led to massive job losses in the cities which are their major electors (although this has been questioned in a recent Treasury report which points instead to the adverse effects of the building slump and other problems) State governments are devising ways of bolstering local economic conditions, even if the price is beggaring neighbouring areas and counteracting Commonwealth initiatives. In most States, however, the ideology of regulatory rather than developmental government is strong and has undoubtedly been reinforced by recent catastrophies in Victoria and South Australia and the scandals of West Australia Inc. Only Queensland, buoyed by a constant stream of international tourists, seems to be creating a broader range of development initiatives with a longer term perspective in mind.

Business and labour

For its part, the business world remains greatly internally divided on a number of crucial dimensions. The leaders of the farm industries and the miners of minerals who are used to success on world markets see no reason to compromise their power and position by policies favouring a 'feather-bedded' manufacturing section unused to the 'discipline of the market'. In more recent times, these leaders have been joined by those of the newly powerful and deregulated financial sector. In this context, suggestions for positive adjustment policies for the manufacturing sector look like special pleading and a return to the much-despised 'bad old days' of protection. Divisions are only exacerbated by the differing interests of overseas company controllers who are playing in global or at least in much broader regional markets.

Tripartite industry policy-advice bodies are also relatively powerless and make only palliative suggestions such as assistance to new exporters or extra incentives for R&D. While the analysis of the challenges facing Australia provided by such bodies as the Australian Manufacturing Council is often more pertinent because more focussed on institutional arrangements and the problems posed by socio-geography and other weaknesses, the influence of the policy prescriptions devising from the analyses are marginal[30].

Into this unpromising policy environment comes the only other major player, that of the trade union movement, brought together in the Australian Confederation of Trade Unions (ACTU). It is significant that the major program for positive change in the Australian manufacturing arena has focussed on the reworking of business recipes from 'inside', acting directly on the organisational outcomes of other aspects of the production system. In 1988, the ACTU and the Trade Development Council published a blueprint for change in *Australia Reconstructed* which was an explicit attempt to change important aspects of the business recipes dominant in Australia in order to prepare the country for the challenges of full incorporation into world financial and manufacturing markets. (Interestingly, however, despite this being the beginning of the age of Asian capitalist dominance in the Pacific region, the study team did not focus on Japan or the smaller Asian NICs).

Capital sources and the market for corporate control

A crucial element of any business system is regular access to sources of capital but the importance of different kinds of capital markets for industrial growth and development, already explored by Hilferding[31] in the early 1900s, has been largely ignored in the redirection of Australian business recipes. So too has recent work by Zysman[32] which demonstrated once more that the organisation of capitalist manufacturing (industrial) systems can only be understood in relation to institutional arrangements for the provision of capital.

Zysman argues that three principal distinct techno-political solutions to the problem of growth have been tried: state led, market led and negotiated. The particular arrangements of national financial systems delimit the ways in which business and the state can interact and may both limit the capacity of government to exert industrial leadership and constrain the strategies of growth developed by firms.

One crucial difference between countries, says Zysman, lies in the extent to which industrial financial requirements are met through a capital market or credit-based system. As with many other sets of economic and political arrangements, the dominance of capital market or credit based systems of finance follows the Anglo-Saxon and continental European/Asian divide.

Building on Zysman's work, Whitley[33] has suggested the ways in which their characteristic finance arrangements shape industrial structures and enterprise organisations. In capital market systems of borrowing enterprises approach a market composed of multiple finance-offering organisations and use only the price of the money offered and the terms and conditions attached to loans to make decisions about which provider to select, treating each approach as a spot transaction. These criteria encourage borrowers to select different lenders each time they approach the money market and even repeated transactions may not lead to the development of 'favoured' relationships. Operations in this market tend to meet only short and medium term needs: lending institutions look only at the borrowers' balance sheets and short-term business projections since they do not expect to gain equity. This is the Anglo-Saxon model and suggests a market-led national industrial strategy. Long term sources of 'patient' money are very hard to find and are constantly bemoaned in the UK, USA and Australia, all of which operate this system. During periods of industrial restructuring and accelerated development a market-led finance system is a handicap: in contrast, experience both in continental Europe (France) and Asia suggests the power of a credit-based system as a motor of long-term economic development. The third way of organising growth indicated by Zysman, that of negotiated development, involves more distant relations between state and industry but also relies on a credit-based rather than a capital market system, as is the case in Germany.

The relationship between the capital market system, comprising both loan finance *per se* and the equity markets through stock exchanges, and local economic development was made more problematic in Australia by the decision to deregulate financial markets in 1983. This effectively made impossible most state strategic initiatives for industrial development: by removing administrative controls on who could be lent money, at which rates and for which purposes, the government effectively prevented itself from taking any further prominent role in the sectoral economic development of the country. Moreover, the inexperience of the banks, coupled to world boom stock market trading conditions and a tax regime which favoured overseas borrowing by customers has led to a potentially disastrous national foreign debt (now 43 per cent of GDP). Together the floating dollar and the deteriorating external debt have made the value of Australian currency extremely volatile, now the world's fifth or sixth most traded currency, making investment, purchase and sale decisions by Australian companies hazardous.

The influence of financial institutions, not constrained by the same rules as banks, is also particularly striking in some sectors of the economy and may exacerbate the short-term return mentality of Australian markets. The reasons why the influence of financial institutions is so important are suggested by American experience shown up in a study by Kotz[34] in 1978 which suggested that institutional investors try to push companies toward development strategies which recirculate money back to the investors through vehicles such as superannuation funds rather than investment in new technologies and products. There is also evidence, presented by Lawriwsky[35], that capital markets can skew a country's industrial industrial development by favouring investment in mature firms with high future potential profits rather than smaller and more innovative companies. This may be particularly important in Australia since the Commonwealth Bank (publicly controlled) has no real development role and the rural banks, now incorporated into State banks, have disappeared.

Speaking generally of business recipes, Whitley[36] suggests that the strategy of using money markets rather than credit-banks to provide money for enterprise expansion, which is dominant in Australia, also has a potentially adverse impact on the management of major corporations. Companies, he hypothesizes, which make frequent use of capital markets must pay more attention to emphasising the financial rather than the production or sales sides of their activity. For these reasons much needed internal funds may be diverted to the financial side of the enterprise and considerable resources be devoted to 'selling' the company in the market place as a secure risk. In contrast, the administrative or negotiated mechanisms for allocating cash in credit-based systems mean that companies can spend less time on the financial side of their enterprises and more on developing their productive strategies. This scenario, companies dominated by their financial areas, is familiar in Australia with its exclusive reliance on capital markets for growth funds and the high degree of activity and dominance of the Sydney Stock Exchange as the market for corporate control.

In this sphere, things may, however, be changing. Since the banks between them now have billions of dollars of non-performing loans they may seek legal changes to enable them to take equity in the companies concerned and may develop long-term and direct business relationships with them. Given past performance and the preferences of banks for liquidity, however, these relationships may not encourage manufacturing risk-taking, reliance still being placed on financial prudence.

Education, training and the labour market

Whitley has pointed out that in explaining the emergence of particular national business recipes not only central arrangements but also certain proximate institutions are crucial. These are particularly education and the labour market.

Labour organisation and personnel and employment practices

Historically in different countries workers have grouped themselves for market, as well as political, purposes in three main ways. They have built organisations and classifications based on craft or trade skills, on industry skills or on enterprise loyalty. In Australia, the union movement long followed the British model of basing organisation on craft and trade skills, rather than industry or enterprise affiliation, and there has only ever been one central coordinating body, the Australian Council of Trade Unions. The regulation of the labour market, however, developed in a distinctively Australian way.

The reasons for the emergence of particular business recipes are important to their understanding. The origins of Australian labour's espousal of a politics of 'domestic defence' rather than the one of 'domestic compensation' favoured by its counterparts in the small European states, owe much to the timing and circumstances of the 'historic compromise' reached between capital and labour in Australia[37]. In Australia, unlike its European counterparts, labour has often been scarce and relatively wealthy. Its relatively strong position early contributed to Australia's building broad political institutions in which labour had a major share. Castles suggests that the outcome was a 'mature' democracy and working class one or more decades earlier than in Europe. In addition, labour and manufacturing industry were both adversely affected by the economic slump of the 1890s and agreed on the need for population expansion and industrial development subject to the protection of labour by the provision of jobs. The result was a protectionist policy for industry and a judicial system of arbitration and conciliation of industrial disputes, notably those concerning wages.

The outstanding feature of this bargain was the acceptance by both sides of the notion of 'fair' wages rather than wages based on a company's ability to pay and their calculation through the arbitration of a special court now called the Industrial Relations Commission. Gradually bargaining over differentials for skills and over conditions of work through the tribunal became enshrined in the 'awards' given to different categories of worker, each award covering all workers in a category regardless of enterprise size, internal structure or market position.

The system reinforced public beliefs in the labour market and wage justice as the basis for social protection rather than the welfare system as a whole, truncating possibilities for the creation of a welfare state on the European model. Generous compensation for workers displaced by economic changes, which in a highly protected system were relatively rare, never came seriously onto the political agenda so that in the 'working man's paradise' it pays to be employed[38]. In the 1990s, however, in an economic system dominated by deregulated markets and open borders, it is increasingly difficult to maintain a centrally organised system of wage formation and reliance on enterprise bargaining is returning. The basis of a more integrated bargaining system is thus being lost: its loss will have major social consequences, almost certainly increase economic inequalities and may make the process of adjustment more difficult than in the more corporatist systems of Europe.

In terms of the competitive edge needed by Australia to survive in the new international economic order the established job design system, however, does have considerable disadvantages again largely stemming from its adoption of the Anglo-Saxon model. In discussing the components of national business recipes, Whitley points to the consequences of a system of strong catergorisations of workers which uses criteria that are not related to or certified by internal enterprise practices, again a function of union and workplace organisation on the British model. Where recruitment is principally external to the enterprise competencies are certified by independent educational institutions which presume that 'jobs' and skills fit together across the nation such that skills acquired and certified can be matched to advertised slots in enterprises called jobs[39]. In Australia workers gain market power from competencies certified by 'impartial' institutions and enforced through trade unions, which are themselves much broader than any enterprise, and a judicial apparatus which hears the views of all sides but 'legislates' independently. The result is the 'separation' both of workers from the enterprises in which they work and of groups of workers from each other.

The separation of workers is, of course, greatly reinforced by the multiculturalism of the Australian population which often makes both communication and trust very difficult. In this system there is little, other than general labour market pressures, to tie a worker to any enterprise and little incentive for intracompany investment in further training[40]. This 'Anglo-Saxon' labour market practice adversely distinguishes the Australian system from that of Japan.

Little more has been invested in managers. Fewer practising managers in Australia possess teritary qualifications than do their overseas counterparts: a just published Australian Institute of Management survey shows that only two thirds of all managers have even completed the highest level of secondary education available. Only 14 per cent hold university degrees as do only 20 per cent of senior managers. (In contrast, in Germany 53 per cent of senior managers have degrees as do 65 per cent in France). Many hold qualifications of a lower level than do the shopfloor workers in their enterprises[41]. In common with the UK, there has been only recently a sudden spurt of growth of management training, including MBA degrees. Moreover, such degrees are generalist rather than the specialist skills often required and it is perhaps significant that strong manufacturing countries such as Japan and Germany do not invest in MBA-type diplomas. Their management is more specialised and their training more specific.

Change, however, was on the way in the 1980s. The influential ACTU report *Australia Reconstructed* advocated the introduction of multi-skilling and broadbanded categories, innovations gradually being incorporated into new awards. The set of arrangements bringing ACTU and federal government together for creating and maintaining a successful incomes policy through a frequently renegotiated Accord ushered in a period which persuaded some observers that a new corporatist system was emerging as the centrepiece of a particularly Australian model of industrial restructuring. Mathews[42] has suggested that the system 'took the unions off the treadmill of endless wage campaigns, allowing both unions and employers to set their sights on longer term goals'. Modelled on the 'social pacts' familiar from Scandinavia the Accord seemed to be a positive move away from the Anglo-Saxon approach but from 1991 industrial relations began moving fast towards a much more decentralised system.

Education

The Australian education system as a whole has reinforced the divisions between training considered suitable for managers and workers, in the process downgrading the latter. Once again, the influence of the British system is clear. In both systems, retention rates to the end of post-compulsory upper-secondary schooling have been low while apprenticeships have only been available in a very restricted range of traditional craft occupation. While enrolment in upper secondary level is now rising, young people still often enter the work force ill-educated in either technical or general streams.

ORGANISATIONAL OUTCOMES IN ENTERPRISES

What then are the organisational outcomes of the mix of the different elements of the overall Australian business system? In which ways do dominant recipes mix the ingredients?

The general situation of Australian organisational recipes is summarised in the following paragraph. Most economic organisations have been operating as they would in the USA or the UK at the heart of the 'Fordist' systems of mass production characteristic of an earlier techno-economic paradigm. Physical technologies are not state-of-the-art while managerial strategies are evolving only very slowly. Work organisation is still largely trade and craft related, with specialised tasks and narrow demarcations. Companies conduct little formal training, little research and much less development[43], employing few scientists and other high-level technical staff[44]. Managers are poorly trained and have traditionally pursued 'loyalist' careers, remaining for decades with the same firm, especially in the banking world. Most companies are either part of conglomerates or, if more specialised, are largely vertically integrated and lack the flexibility that is the hallmark of systems such as the networking of the 'Third Italy'. Australian companies are only just beginning to shape and organise their supplier chain on the Japanese model, now also increasingly dominant in Europe[45] and have barely begun to adopt any of the range of new organisational 'boundary crossing' forms such as co-contracting emerging elsewhere while significant production and design linkages between companies are only just being created. The lag in Australian acceptance of Japanese managerial strategies for coordinating a wide range of economic activities through a kind of quasi-market and their reliance on the integrated hierarchies or haphazard conglomerations of equity holdings common also in the UK and America means that many crucial relationships between firms are still determined by price considerations on the 'stress' model described in the automotive industry in Britain by Lamming.[46] Relationships of co-design, co-contracting or co-manufacture, built up over a long series of transactions, have as yet barely begun to emerge: the large core companies have been as slow in leading down this path as their suppliers have been to follow[47] while few efforts have been made to develop inter-corporate trust.

This individualistic organisation pattern follows from the logic of the broader system of institutional arrangements. Much was borrowed from an earlier stage of development of a larger industrialised country on the other side of the world and transplanted to a country where for other reasons managers (owners) of capital and workers had been able to conclude a deal which encouraged protection of the weaker manufacturing sector and its support by an efficient set of farm and mineral production systems. The ideology attached to that system as the 'one best way' has proved very difficult to change. The outcome was a business recipe owing much to Anglo-Saxon origins but with a vastly different material base and relationship to the surrounding world. It has ceased to serve Australia well.

THE EMERGING MIX

First, in response to the new competitive situation faced by Australia a number of initiatives have been taken. These have been dominated by a new focus on deregulation, privatisation, a 'minimalist' ideology in relation to government involvement in economic development and exhortatory rather than more interventionist industry policy at federal level (the States may pick up the pieces and devise their own countermeasures). These initiatives have not proceeded smoothly. Deregulation of the financial sector is now almost a decade old but has proved only a limited success, with the slow learning period[48] of the banks causing massive distress to both manufacturing and service enterprise clients and the banks themselves, which in 1991 began to report several billion dollars of bad debts and non-performing loans. Paradoxically, this apparent failure has not yet dampened ardour for further deregulation and privatisation. The State is rapidly putting itself in a position where it will have almost no levers to pull to effect direct and targetted economic change. In trying to develop an economy, Australia is proving once again that 'taxation and similar measures can only lead from behind'[49]. The blunt nature of macro policy instruments available to federal governments — witness the recession we now have rather than the 'slowing-down' we were supposed to have on the government's own admission — may make for greater political instability and create industrial unrest.

The focus on management of the economy through 'modernisaton' has been accompanied by a further focus on the operations of the proximate social institutions which impinge on the design of business recipes. These include the encouragement of industry training and the reform of the higher education system to make it 'more responsive to the needs of the economy'. The same government has also reformed its own operations, emphasising a managerialist, rather than an expert, more policy-oriented approach, in the process perhaps losing important sources of advice.

The rhetoric has changed: Australia is now to become the 'clever country' through technological upgrading, the development of hi-tech sectors and the encouragment of an export orientation. Protection through quotas and tariffs has gone or is going (allowing a few adjustment years) and, much like the message put out by Mrs Thatcher in 1979, manufacturing in Australia is now to compete or go to the wall.

The constituent elements of the Australian business system stand on the brink of major changes. Some of these changes result from the move away from British and American-oriented economic structures and practices and the dominant ideas of Anglo-Saxon business recipes. Some come from Australia's version of the 'Japanisation' of the world and the acceptance of the major shifts in perception and practice which would stem from the adoption of a broadly Asian system of organising many of the ingredients of a productive system through the management of the market rather than through the direct control of materials and people through a hierarchical organisation. Australia is caught, however, as mentioned earlier, in a system where the government looks towards Asia but the economy is still Anglo-Saxon controlled.

CONCLUSION

The rise to economic dominance of Japan and the NICs of North East Asia, Australia's increasingly close economic ties with the region seen in the dense web of trading relationships being developed and the position of Australia as principally a major supplier of raw and semi-processed materials present major economic and policy challenges. These complementarities with the major industrial countries of the region have been hailed by some as the salvation of Australia. The beds, beaches and holes-in-the-ground economy which may emerge may not, however, provide the standard of living which Australians, concentrated in urban areas, expect and involves major questions about how to redistribute the profits from rural to urban areas without causing a political backlash.

One of the main reasons why Australia will find it extremely difficult to take advantage of industrial possibilities presented by the economic transformations of the region is that many elements of the business recipes in place are inappropriately structured. Present policy prescriptions are suggesting a standard neo-classical response of the liberalisation of the economy, the rapid phasing out of tariffs, quotas and anti-dumping provisions, and the deregulation of both the financial system (already achieved) and the labour market. This, however, addresses only some elements of the recipe and may lead to de-industrialisation rather than reindustrialisation. The central issues of management, of company restructuring, of choice of strategic decisions about investment in crucial areas such as technology receive relatively little attention. Even less consideration is being paid to the socially central questions about who will pay the price for the changes and, even more important, how they will be compensated for bearing the brunt of dislocations that will ultimately prehaps benefit everyone, how the social marginalisation of these groups will be avoided.

On the economic level progress will depend crucially on Australia's success in harnessing the trading relationships of the region to her advantage. Such success would seem extremely difficult. It is suggested here that one of the chief obstacles to that success lies in the nature of the business recipes which shape and structure the central areas of the Australian economy and the political bargains to determine the social distribution of the rewards generated. These critical recipes were devised in an age of western, largely Anglo-Saxon, world dominance in both the productive and the political arenas and are very different from the recipes generated in the small countries of Europe. They are also very different from those devised elsewhere in the Asian-Pacific region and which largely account for the success of the major players.

An important conundrum therefore presents itself to Australia. The government finds itself forced to act by the transformations taking palce in the region but its actions are taking it down a path which provides it with less and less control. This loss of control affects many internal policy decisions in areas such as social security because of the overwhelming need to reduce foreign debt and release capital for local development which reduces funds available for social protection (the recent Medicare rebate reduction as the trade-off for the Better Cities Program is just the most obvious example). Australia is formally becoming a much more open economy, fully integrated into world financial markets already and increasingly open to trade pressures in all sectors. That openness, however, is not new in certain crucial aspects. The search for capital in the post-war period meant that much control over economic activity was lost to the multinational companies which now dominate every major sector of industrial activity. In attempting to deal with the new technological and economic order, especially as that order is governed in our region by the north east Asian ascendancy, the government has left itself few options. If the emerging business recipe is to work and to benefit all Australians much greater attention must be paid to long-term social considerations and a greater effort made to move towards and not away from an adequate social protection for those from whom the greatest effort is being demanded. A more sophisticated analysis of the economic recipes successful in other countries in the region and in small countries elsewhere in the world must focus on what is transferable to Australia from their experience rather than continue to behave as though Australia were in the Anglo-American big league.

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