

“Wrong, or at Best Misleading”: Public Policy and the Slow Recovery in Australia, 1990 – 1994

Joshua Black, *The Australian National University*

When the Australian economy entered its first recession for nearly thirty years in 2020, many pundits recalled their experiences of the previous downturn, the one that the then-Treasurer declared that we “had to have”. People remembered the “stubbornly high unemployment”, or the “jobless recovery”, and recalled their own experiences as “very tight”.¹ Indeed, unemployment breached 11 per cent in July 1992 and was still at 9.2 per cent when the 1996 census was taken.² To a profound extent, this was both a slow recovery and a jobless one.

Why was the recovery so slow and painful for those who experienced it? Earlier commentary emphasised the role of monetary policy and the official cash rate, as if a few earlier movements on the way up or down could have changed “the main outlines of the boom and bust”.³ In this paper, I argue that the whole framework of economic policy that shaped the government’s response to the recession – a framework born out of the neoliberal 1980s – was built on flawed assumptions. First, the Hawke Government’s approach to macroeconomic management was limited by its obsession with (understandably) inflation and (less understandably) the current account deficit. These were the prime objectives of economic policy in the lead-up to the recession, fundamentally constraining policy options. Second, the government acted on the seemingly untenable assumption that employment growth would

¹ Gay Alcorn, “Remembering the Recession: ‘The 1990s Experience Changed My View of the World’”, *Guardian*, 17 November 2019, <https://www.theguardian.com/business/2019/nov/17/remembering-the-recession-the-1990s-experience-changed-my-view-of-the-world>, (accessed: 6 July 2021); Daniel Ziffer and Stephen Long, “Recessions have a nasty habit of lingering – just ask those who lived through the last one we had”, *ABC News*, 8 July 2020, <https://www.abc.net.au/news/2020-07-08/1990s-recession-shows-there-is-no-quick-road-to-recovery/12431398>, (accessed: 6 July 2021)

² Laura Tingle, *Chasing the Future: Recession, Recovery and the New Politics in Australia* (Port Melbourne: William Heinemann Australia, 1994), p. 176; Australian Bureau of Statistics, 1996 Census of Population and Housing, *Selected Family and Labour Force Characteristics* (Canberra: ABS, 1998), p. 7, [https://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/CA25687100069892CA2568890026FEBE/\\$File/2017_0_1996.pdf](https://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/CA25687100069892CA2568890026FEBE/$File/2017_0_1996.pdf).

³ John Edwards, *Keating: The Inside Story* (Ringwood: Penguin, 1996), p. 393.

restore itself in 1991, and in doing so wilfully ignored critical signs to the contrary. This assumption was predicated on a belief in the supremacy of Labor's reforms in the 1980s and an assumption about the "natural" business cycle. Finally, when it did turn its hand to Keynesian response tactics in 1992, the Keating Government incorrectly assumed that its stimulus initiatives would produce rapid real effects in the labour market. At each turn, policy was guided by assumptions, objectives and logics that were ultimately misguided. This case study reminds us that short-term assumptions are important because they contribute to the path-dependencies that shape the "politics behind economic policy" and the outcomes to which they lead.⁴

The Hawke Government remained obsessed with the current account deficit and inflation, both measures having assumed a status as key indicators of economic performance during the stagflation crisis of the 1970s and the neoliberal turn of the 1980s. In May 1991, after nearly a full year of recessionary conditions, Keating used one of his final Cabinet submissions in his capacity as Treasurer to warn colleagues not to risk "jeopardizing our ongoing need to stabilise out balance of payments and reduce inflation".⁵ Even as unemployment soared, government policy remained fixated on the need to manage the current account deficit, even though economists were beginning to argue that it was now "wrong, or at best misleading" for governments to make this the prime objective of economic policy.⁶ Policymakers clung to the anxieties and objectives of the late 1980s so tightly that they failed to recognise the rapidly shifting environment around them.

Central to the government's deliberations was a further assumption, equally misguided, that the economy would naturally revive itself in the second half of 1991. In its handling of

⁴ Stephen Bell, *Ungoverning the Economy: The Political Economy of Australian Economic Policy* (Melbourne: Oxford University Press, 1997), p. 4.

⁵ Cabinet Submission 7966 – Economic and Fiscal Policy Strategy, 22 May 1991. NAA: A14039, 7966.

⁶ John Pitchford, "Current Account Deficits, External Liabilities and Economic Policy", Working Paper, International Monetary Fund, July 1992, p. 6.

monetary policy, the Reserve Bank formed the assumption that, having made interest rate cuts, “the Australian economy should be looking healthier in the second half of 1991”.⁷ In its March 1991 Economic Statement, the Hawke government spent \$150 million on labour market programs chiefly designed to maintain employee skills and to provide limited work-experience opportunities.⁸ However, it did so in the context of large tariff reductions and serious moves toward structural adjustment that even the then-Industry Minister John Button perceived to be “a bit quick”.⁹ In that environment, \$150 million was, in the words of then-Finance Minister Ralph Willis, “pathetically minor”.¹⁰ In mid-1991, when Keating departed for the backbench, the new Treasurer John Kerin found his Treasury officials saying little about Keynesian responses and much about the importance of “automatic stabilisers” such as the floating exchange rate, which they felt would automatically facilitate the most efficient use of capital and labour through the economy.¹¹ In August 1991, the government remained committed to its March program with “some additional emphasis” on labour market programs for youth and the long-term unemployed.¹² In Cabinet, the assumption that employment figures would lift through 1991 prevailed, and the government therefore formulated policy options that preserved skills, but not the jobs that workers required in order to use them.

Though initially celebrated for its more interventionist, Keynesian approach to the recovery, the Keating Government’s *One Nation Economic Statement* in February 1992 also rested on unsound assumptions. The statement pledged \$1.4 billion government spending on

⁷ Bernie Fraser, Address to the Annual General Meeting Dinner of the Committee for Economic Development of Australia, Melbourne, 28 November 1990, in *Collected Speeches*, volume 1 (Sydney: Reserve Bank of Australia, 1998), p. 93.

⁸ Cabinet Submission 8147 – Adequacy of Labour Market and Training Programs in a Recession, 17 July 1991, pp. 39 – 41. NAA: A11116, CA4519 Part 1.

⁹ John Button quoted in Andrew Leigh, “Trade Liberalisation and the Australian Labor Party”, *Australian Journal of Politics and History*, vol. 48, no. 4 (2002), p. 504.

¹⁰ Ralph Willis, oral history interview with Daniel Connell, 13 – 14 July 2015. National Library of Australia, ORAL TRC 6100/98.

¹¹ John Kerin, phone interview with the author, 2 September 2020.

¹² Cabinet Decision 15631, 6 August 1991. NAA: A11116, CA4519 Part 1.

new infrastructure projects including a standard gauge railway from Brisbane to Melbourne, \$317 in family assistance payments, two rounds of tax cuts, and a total of 800,000 new jobs.¹³ Much has been written about the highly flawed assumptions informing the proposed tax cuts, with the second tranche abandoned following the 1993 election.¹⁴ Though intended as a standard Keynesian stimulus, the infrastructure spending also contributing to lags in the recovery insofar as the individual projects were held up by bureaucratic processes and planning. In October 1992, ministers learned that only 40% of projects had actually been processed through Commonwealth and state bureaucracies and commenced construction.¹⁵

In response to the 1990s recession, then, the Labor Government developed a set of policy responses that were predicated on a range of different but largely untenable assumptions, and initially at least, geared toward the wrong objectives. Popular histories of the period have noted that one of the consequences for this was the eventual collapse of Bob Hawke's prime ministership. More importantly, the naturally corollary of these mistakes was higher unemployment for a longer period of time, with broader consequences for the economy, politics and society more broadly.¹⁶ Those policy mistakes made themselves felt in the lives of Australians who lost their jobs, their businesses, and in some cases their homes.

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¹³ Tingle, *Chasing the Future*, p. 164.

¹⁴ Paul Kelly, *The March of Patriots: The Struggle for Modern Australia* (Carlton: Melbourne University Press, 2009), pp. 215 – 17.

¹⁵ Note on Cabinet Memorandum 838: One Nation Status Report – Road and Rail. NAA: A1209, 1992/2173.

¹⁶ Frank Bongiorno has gestured toward some of these effects in *The Eighties: The Decade That Transformed Australia* (Carlton: Black Inc., 2015), pp. 280 – 82.

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