

Bob Hawke: Australia's Greatest Prime Minister, *The Australian Financial Review*, Friday 5 May 2019

Australia's greatest Prime Minister died in Sydney on Thursday. He leaves a modern Australia, incomparably more prosperous, and more closely linked to its dynamic and assertive region, than the country he began to lead 36 years ago last March.

Democracy is struggling throughout the developed world. The existential questions about the future of democracy are being raised less vigorously here in Australia than in Europe or the United States of America—despite the fractured recent Australian history of Prime Ministerial leadership. That is a Hawke legacy.

Hawke became Prime Minister at a time of national disappointment about economic performance, after nearly a decade of high unemployment and inflation, and many decades with incomes growth well below developed country norms. He accepted responsibility for correcting these weaknesses. His greatest achievement was to establish the foundations through economic reform for a long period of rising employment and incomes with low inflation. The economic success stands alongside and required another historic achievement: the reorientation of Australia towards the realities of our Asia Pacific geography—including acceptance of large-scale immigration without racial discrimination. The economic and foreign policy reorientations were achieved within a social and fiscal programme of stunning breadth, directed at enhancing opportunity and personal security for ordinary Australians.

Hawke was a democrat. For him, carrying broad community support for reform was a necessary condition for change, and an objective in itself.

He was a social democrat. His Government's lasting legacies included Medicare, the family income supplement, the means testing of social security, a stepwise increase in school retention and University participation rates, fundamental tax reform to secure greater equity, a marked advancement of the status of women (building on a Whitlam legacy) and an enhanced role of the state in environmental protection (including the establishment of Landcare).

Hawke as a Political Leader

Bob Hawke was drafted into the Prime Ministership by the Australian people. His incomparably high standing in the electorate led to Labor Party leadership despite the misgivings of a majority of Caucus members. His incomparably high standing in the electorate kept him Prime Minister for as long as the electorate was given the choice.

Bob Hawke was Australia's only long-term Labor Prime Minister. Menzies was the founder of a political dynasty that lasted longer. Menzies and Howard served longer as Prime Minister. The two most important conservative Prime Ministers made contributions to national life that were greatly valued by many Australians, but neither was responsible for reform that led to comparably durable and important changes in national policy and institutions.

No Labor leader other than Hawke (4-nil electoral win-loss ratio) has led the party to more than two electoral victories and none other than Fisher (2-1) to more triumphs than defeats. (Here I count the hung Parliament of 2010 as a dead heat). Hawke's electoral record stands up alongside the durable conservative leaders: Menzies' 7.5-1.5 (if we count the hung Parliament of 1940 as a tie), the 3-0 of Lyons, and Howard's 4-2.

Hawke and Curtin

Bob Hawke admired John Curtin, and thought him Australia's greatest Prime Minister.

In "The March of the Patriots", Paul Kelly declares that the Labor Party has produced two great Prime Ministers, John Curtin and Bob Hawke, "the founders of two historic eras". (Kelly 2009, p.2).

Both Hawke and Curtin spent the whole of their professional lives before becoming Prime Minister in the politics of the Labor movement. Both had to defeat problems with alcohol to be good Prime Ministers. But the personal differences were more striking. Hawke's social and political confidence contrasts with Curtin's diffidence with others and periodic depression.

Curtin united the country around the war effort and the hopes of a better postwar Australia. Hawke united the country around structural reform to modernise and open the economy and to integrate the economy and society productively into a newly dynamic Asian neighbourhood. Or, at least, each united the country as far as can be imagined for one of the world's oldest, most argumentative and raucous democracies.

Public Education and Persuasion

Hawke's confidence became conviction that he could persuade the Australian community to do hard things when the national interest required it. Electoral confidence underwrote long time perspectives on policy. When Hawke asked his Cabinet to endorse politically difficult budgetary measures in the 1983 May Statement that would take until the end of the decade to have their main effects, he expected his Government to be around to enjoy the benefits.

Hawke's capacity to persuade Australians of the value of difficult and sometimes painful changes stood alongside his view that public education on a problem was an essential part of a solution.

Hawke presumed that most Australians shared a commitment to their country beyond their narrow personal interests. Public education could help reconcile divergent views on contested policy. Reconciliation and consensus, like public education, were essential to durable reform of policy and institutions.

Hawke's truncated fourth term was as productive as any for reform, with the March Statement of 1991 in the depths of recession taking the largest and most important of all the steps to dismantle Australia's longstanding and damaging policy of protection. In that fourth term, cooperation with Premiers from both sides of Australia's political divide was moving towards far-reaching and productive reform of Australia's Federal arrangements. While diminished by the struggle over leadership of the Australian Labor Party, it reached across the partisan political divide to generate what stands in history as a unique period of cooperative Federalism. The move from centralised wage formation, taken further by Keating and much further and later a step too far by Howard, was commenced in the fourth term.

Hawke's Strong Mind

It was a rich professional experience and a great pleasure to work closely with Bob Hawke in various capacities throughout his Prime Ministership. It has been my great pleasure in the years since 1991 from time to time and at length to discuss with Hawke the challenges facing Australia and the international community of which it is part.

He deployed one of the best informed, disciplined, retentive and analytically strong minds with which I have interacted.

If I was talking to the Prime Minister about budget policy, or the resource rent tax, or the launching of a new round of global trade negotiations or economic relations with the United States or India or China, and we were interrupted by a security scandal or foreign relations emergency, the discussion about economic policy would be put aside. We would later resume the conversation exactly where we had left it. Each conversation built on a stronger base of knowledge and settled positions. Former Finance Minister Peter Walsh's recollected in his memoirs a quarter of a century ago:

“Hawke did have a remarkable ability to absorb the essential features of an issue and to remember details for a long period, something Ross Garnaut had pointed out long before. (Garnaut said this was one of the satisfying things about briefing Hawke. If a briefing was interrupted by more urgent business, it could be continued even a week or two later as if the interruption had not taken place. There was no need to go over ground already covered, because Hawke remembered it).” (Walsh, 1995, p118).

Hawke's exceptional personal discipline facilitated productive work with his staff, the public service and people from the general community. If something was given to him in writing he would read it in good time, usually overnight. If it was important enough he would want to argue about it at the next opportunity. He would work for as long as was necessary to get the work done. I stayed at the Hawkes' Sandringham residence in Melbourne over Easter 1983, as we worked through the detail of what became the Government's first budget statement in May 1983. That statement significantly reduced the huge projected deficit left by the Fraser-Howard administration while making room for the introduction of new policies requiring public expenditure. The only interruptions from early morning to midnight over the four days were for meetings with a succession of State Premiers.

Hawke as Government Leader

But as Prime Minister, he would only do the work that it was best for a Prime Minister to do. He was fortunate to have the most talented Australian Cabinet. But it was not only good fortune. He made prominent places in the Cabinet for the strongest supporters of his predecessor Bill Hayden as ALP leader—Peter Walsh, John Dawkins, Neil Blewett, and Bill Hayden himself. And while his Cabinet had incomparable talent, he made better use of the talent he had than Prime Ministers before or since. His relationship with his forceful Treasurer was productive until it was consumed by leadership tension after the 1990 election.

Hawke was very much the leader of his Cabinet, talking individually to each Minister about priorities and directions within his or her portfolio. But the directions being clear, he would leave the Minister to get on with the job, monitoring progress without second guessing every move.

Inevitably, contentious issues would arise with Ministers in the setting of directions or in implementing programmes. Conflicting views would be put to the Prime Minister about the best way forward. He would not let the differences fester, but call the contesting parties together in his office to argue out the point in front of him. While it could be uncomfortable for an economic adviser, especially when the Prime Minister adjudicated in his favour against a Minister, it worked well for policy.

The breadth and depth of Hawke's reform achievements would not have been possible without effective use of the capacities of the Commonwealth public service. He saw the Public Service as a rich resource of knowledge, experience and analytic capacity. He wanted to know the views of senior public servants on a current issue, and especially if they were different than his own. His Chiefs of Staff, commencing with Graham Evans, were all talented public servants. His small private office advisory staff (at the beginning, a Chief of Staff, one economic adviser, one foreign affairs adviser, two political advisers with links respectively into the NSW and Victorian ALP branches, senior communications staff) were expected to interact closely and productively with the Public Service.

His interactions with his private staff and on occasions with the public service were shocking in their honesty. Hawke expected to be told clearly and forcefully if an adviser thought that a Government position or Prime Ministerial idea was unsound.

Economic Reform

Australia's economic performance relative to other developed countries was mediocre and worse for the first eight decades of the twentieth century. As the relative decline continued through the slow prosperity of the postwar decades, Australian economists began to probe the policies of protection and state control of economic activity that had hindered productivity growth. By the end of the 1970s, there was some although by no means universal recognition in elite opinion that trade and financial liberalisation were necessary elements of a programme of reform to raise productivity growth. Popular opinion, however, was strongly wedded to the old Australian ways, and the beneficiaries of restrictions on competition invested heavily in the political process to reinforce popular resistance to change.

From 1974, large macro-economic imbalances were superimposed on the poor productivity performance, and interacted with it in damaging ways. Inflation started to rise from the late 1960s. Australia's terms of trade had risen exceptionally during and especially at the tail end of the postwar "golden age" of world development, and this partially hid the emerging problem from view. And then the conclusion of the "catching up" phase of Japanese economic growth which had driven much of the increase in the terms of trade coincided with global recession after the first oil price shock in 1974. Under the Whitlam Government, fiscal expansion of appalling dimension sent domestic expenditure and wages to unsustainable levels just as the good times were crumbling beneath Australians' feet.

For a decade, Australia was mired in the combination of persistent high unemployment and high inflation.

Low productivity growth compounded the macro-economic problems through the decade of stagflation: there was no opportunity for growing out of the macro-economic imbalances.

Under the Fraser Governments from 1975 to 1983, high inflation persisted, and unemployment and budget and current account deficits rose to the highest levels in the postwar period. Unemployment lifted above 10 percent as the Hawke Government took office.

Hawke developed a programme that required large changes in expectations and political culture. Expenditure growth would have to be greatly reduced to restore economic stability. Wages growth, and for a while real wages, would have to fall to restore full employment. Economic reform to increase productivity would moderate the reduction in living standards required for the restoration of full employment and economic stability. Productivity growth required difficult structural change. All of the measures required to achieve these outcomes ran headlong into deeply held popular attitudes.

Hawke's programme secured wage restraint through the Accord between the Government and the Australian Council of Trade Unions (ACTU). To the unions, expansion of employment was a priority. Increases in living standards were secured through provision of government services rather than wage increases: Medicare; historic expansion of access to secondary and tertiary education; and progressive adjustments to taxation and social security. This had to be accommodated by sustained discipline in other expenditures and broadening of the taxation base: tighter means tests on social security; abandonment of a range of corporate welfare measures; substantial reduction in the taxation privileges to superannuation; extending taxation to capital gains, gold income, wine revenue, fringe benefits and a range of other previously exempt sources of income. When Opposition attacks on fiscal discipline threatened to bite in the 1984 election campaign, the Prime Minister turned a point of vulnerability into an electoral virtue with the commitments to the "Budget Trilogy".

Despite serious setbacks in international conditions—Australia's terms of trade fell to historic lows in the mid-1980s--there was considerable progress for seven years. Employment expanded proportionately more than ever before or since over a seven year period; the budget moved into substantial surplus; inflation fell but remained uncomfortably high.

Financial deregulation was implemented seamlessly through effective cooperation between the Prime Minister and the Treasurer through 1983 and 1984. The long term gains were large, after a high economic and political price was paid when high interest rates in the late 1980s were followed by deep recession in 1990 and 1991. Hawke saw the misjudgement of monetary policy in the late 1980s as the most damaging error of his government.

Ending Protection

Trade liberalisation was the central element in productivity-raising reform, and politically the most difficult.

On coming to office, Hawke had said that protection would be reduced when employment was growing. Steady progress was made year by year right through the Hawke Prime Ministership. But the biggest step was the last, announced in recession in March 1991. Across-the-board reforms announced in March 1991 completed the process through which Australia, and later New Zealand, the most protectionist of the developed countries in 1983, became the most open to international trade of the advanced economies.

The Hawke Government's reductions in protection began industry by industry in 1983, with the removal of quotas on steel imports and liberalisation of imports of whitegoods and heavy

engineering products. The Fraser Government's long-term commitments to protection for the motor vehicle industry were curtailed in 1984 under the "Button car plan". My Report to the Prime Minister "Australia and the Northeast Asian Ascendancy" in October 1989 had recommended movement to free trade by 2000. By late 1990, the political ground had been thoroughly prepared. I discussed the impact of high unemployment on trade liberalisation policy with the Prime Minister in December 1990. To delay the Statement, as some members of the government proposed, would require the work to be done again, and there was no certainty when conditions might be favourable.

The decisive point in favour of proceeding was that the reductions in protection flowing from the statement would take effect from mid-1992 and would proceed gradually over the following four years. It was reasonable to expect that by that time the economy would be growing again. While it was politically difficult to make the announcement in the depths of recession, the recovery from recession was economically and socially a favourable time for structural adjustment. The Prime Minister decided to proceed.

In case the remarkable character of Prime Minister Hawke's March 1991 Statement on trade and industry policy is lost in the mist of time, I will refer to the reflections of John Hyde, intellectual leader of the Liberal Party's historically important Dries:

"Despite the recession then prevailing, the Government reaffirmed its intention to open up the Australian economy.....Hawke defended his decision with an impeccable statement of economic principle: "the most powerful spur to greater competitiveness is further tariff reduction. Tariffs have been one of the abiding features of the Australian economy. Since federation...the supposed virtues of this protection became deeply embedded in the psyche of the nation. But what was the result?-inefficient industries that could not compete overseas; and higher prices for consumers and higher costs." (Hyde 2002, p. 233).

Hyde sees this statement by Hawke as the high point of rationality in Australian economic policy (Hyde 2002, p. 234).

What Made Hawke's Reforms Possible?

This story of the national interest in open trade prevailing over vested interests seems impossible in 2019. What made it possible then?

That is a story of leadership with many parts. It is a story of building on a base of transparent economic analysis of the effects of protection, of long time perspectives on policy, of discipline in the management of government and the public policy process, of public education on the national interest, and of gradual movement towards long-term goals. It is a story of leadership within a social democratic framework that gave a majority of ordinary Australians confidence that they would not be stranded by change.

Neither trade liberalisation nor productivity-raising economic reform more generally was ever seen as being separate from employment, income distribution, and the provision of government services affecting equity. Hawke saw that good economic policy would make it possible over time for Australians to enjoy higher standards of living, although early restraint was necessary if long-term goals were to be realised. Comprehensive trade liberalisation would follow and reinforce the re-establishment of growth and community confidence in employment. Progress

would require public education over time, so that the community was never taken by surprise by sudden changes in direction. Here the Whitlam across the board tariff cut of 1973, with its chaotic partial reversal through the introduction of import quotas in 1974 and through the Fraser years, was seen by Hawke as the negative example to avoid.

Hawke's speeches contained frequent references to the virtues of open trade from his early days as Prime Minister. This reinforced the emerging understanding of costs of protection across parts of the community. But there was no transformation of opinion in the electorate at large: the opinion polls remained stubbornly loyal to the old protectionism. However, the public education allowed the community to put the trade liberalisation into context and reduced the intensity of reaction when it was later revealed as current policy.

The clear leadership from the head of Government encouraged others in the community who favoured trade liberalisation to express their views more strongly. It was no longer respectable for businesses openly to seek higher protection in their own interests. Hawke's speeches in 1983 were directly important in causing the Productivity Commission (then Industries Commission) to strengthen its advocacy of far-reaching liberalisation.

A new Economic Policy Advisory Council (EPAC) chaired by the Prime Minister brought together business, union and community groups for discussion of productivity and income distribution issues. It was served by a secretariat with considerable analytical capacity. After the 1984 election at John Dawkins' suggestion, the EPAC Secretariat also became the secretariat of the Cabinet committee on long term economic growth, later the Structural Adjustment Committee of Cabinet.

An intellectual climate was developed in which, to be credible in discussions with government or in public statements, a business or business group would have to frame its arguments in terms of effects on the long-term national interest. A case needed evidence and rational analysis. The special interest pleading that now is stock in trade for business groups was not attempted because it would be dismissed in ways that damaged its advocates.

Business interests did not stop trying to influence Government policy through all of the familiar mechanisms. The heavily protected industries remained major donors to political parties. But the clear lines of Government policy constrained the drift into rent-seeking behaviour.

Trades union leaders representing protected industries retained their support for protection. However, through the auspices of the ACTU, they were engaged in broader discussions of national policy, and in the end were receptive to proposals for economically superior alternative means of raising the welfare of their members and of low-income Australians.

The reforms of the Hawke years demonstrate that a Prime Minister with strong electoral standing has considerable autonomy in implementing reform in the national interest. It also shows that consistent messages to the community over long periods and commitment to gradual and steady progress towards long term goals are important to implementing politically difficult decisions in the national interest.

On many of the Hawke era reforms, bipartisan support came only after the new policies were operating with public support. On two big ones—financial liberalisation in 1983 and 1984 and the last and biggest step in dismantling protection in 1991—bipartisan support (from Howard as Treasury Spokesman in 1983-4 and Hewson as Opposition Leader in 1991) was present at the time decisions were announced.

Recession and its Aftermath

The recession of 1990-91 inflicted great damage on the Australian economy and community. It weakened the Government and its authority on reform. It did not lead to the Hawke Government back-tracking on policies which had been announced or were in train.

By the time of the change in leadership in December 1991, the economy was growing again. This turned out to be the start of the first decade since Federation in which Australian productivity growth was at the top of the OECD, after spending the rest of the century in the bottom half. It was the beginning of the longest uninterrupted economic expansion in the history of Australia or any other developed country, now 28 years old. It was the beginnings of a long period of low inflation.

Hawke, International Relations and Race

Hawke and Curtin were deeply grounded both in Australian national tradition and sentiment and in an international view of the nature and destiny of Australians. Curtin was not immune to political appeals to White Australia, but used them more reluctantly than any other major Labor figure from Federation to the Pacific War. Hawke was the Prime Minister who contested and subdued the backlash to large scale non-discriminatory immigration, and so made racial diversity a feature of our modern democracy.

In giving this credit to Hawke, I acknowledge the earlier contributions of Harold Holt, and then in larger measure Gough Whitlam and Malcolm Fraser, to ending the White Australia Policy. But it was in the middle and later 1980s that the changes were transformative for Australian society, and generated strong reactions that were combatted with strong leadership.

The consolidation of non-discriminatory immigration policy supported the leading role that Australia took in regional affairs, including and beyond Asia Pacific Economic Cooperation.

Hawke and our Democratic Future

Bob Hawke was a highly educated and intelligent citizen of the world. At the same time, he shared the values, interests, enthusiasms and weaknesses of his fellow citizens.

He was deeply rooted in Labor values and culture but was Australian first of all. I spent an afternoon with Bob soon after Malcolm Turnbull became Prime Minister. "I think he's the best equipped Prime Minister since you, Bob", I said. "He's got nearly as hard a job as you had, and there's a chance he'll manage it". "I think you're right", Bob responded. "I'll keep working my butt off to get my mob up. But if he handles it right, Malcolm will be there for a decade".

As the months and years passed, he expressed deeper disappointment at Australian as well as international leadership. He didn't see a problem with our democracy: good leadership could still put us on a better path.

"Hard to believe how bad this Government is", he said in late July last year. "Bill Shorten has a good team. I think that they could pull things together. They might get the chance". And then earlier this year. "I think they'll make it. We need them. I'll see if I can hang on to see them in".

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