

Wheels and Deals: The Automobile Industry in Twentieth Century Australia. By *Robert Conlon and John Perkins*. Aldershot, U.K.: Ashgate, 2001. 190 pp. Bibliography, index. Cloth, \$79.95. ISBN 0-754-60405-5.

Reviewed by David T. Merrett

This is the latest in a long line of studies of Australia's unhappy automobile industry. Its thesis is that government policies, the "deals" in the title, shaped the development of the industry from its inception before World War I up to the present. Moreover, it is a story of failure, in that the outcomes of the deals have not served either the long-term interests of the automobile producers and their customers or the wider purposes of the government.

The fundamental economics of the automobile industry from the time of the Model T onward have mitigated against the viability of an Australian industry: the market was too small to allow for low-cost mass production. Initially, U.S. firms, such as General Motors and Ford, that could exploit scale economies at home exported to the Australian market. Trade barriers, which resulted in fully assembled cars being taxed at much higher rates than chassis—including engines and transmission—encouraged the setting up of assembly plants in the 1920s. Local body builders and component suppliers were beneficiaries of this policy. Having made their investments, foreign automobile firms joined with their suppliers to lobby for more protection against imported cars. Strangely, the authors ignore the possible involvement of other powerful lobby groups that stood to benefit from the growth of a local automobile industry, such as the producers of steel, rubber, copper, and glass, the oil companies, and road contractors.

However, it was the government rather than the industry that decisively changed the rules in the 1930s. To promote development in the broadest sense and to enhance defense capability, the government offered subsidies, including continued protection from imports, for the manufacture of a complete car in Australia. The book is at its best discussing the tortuous negotiations between the government and General Motors, Ford, Chrysler, and a favored domestic firm with no prior involvement in the industry. Legislation was passed, repealed, and new laws passed until, impelled by the threat of the government's setting up its own company, the foreign firms were prepared to commit to establishing complete manufacturing capability. General Motors led the way, producing its Holden in 1948.

During the next half-century, the flaws in this policy of protection were revealed. The trade barriers facing foreign firms stimulated new entrants from Britain, Germany, and Japan, both as assemblers and manufacturers. There were too many manufacturers and too many models.

Low volumes resulted in high costs. Manufacturers were locked into high-cost, low-quality domestic suppliers through a succession of “local content” plans. However, the government never took the next step of limiting the number of firms so that each could enjoy sufficient economies of scale and be free of the need for protection. As the competitiveness of imports rose, particularly from Japanese makers in the 1970s, new forms of protection were introduced, including import quotas and market-sharing agreements. The policy of protection at all costs was finally abandoned in 1984, when the new Labor government implemented what was known as the “Button Plan” to reduce the number of manufacturers from six to three and the number of models to no more than six. It has been partially successful, the number of manufacturers has fallen to four, productivity and quality has risen, cars are more affordable, and both cars and components are exported from Australia. All these improvements notwithstanding, the Australian industry, whose firms are all struggling financially, will remain under intense pressure from imports in the face of global excess capacity and a cheap Australian dollar.

This book contributes to our understanding of an important industry, about which much has already been written. It offers fresh perspectives on three issues in particular. First, this is the most complete account of the negotiations between the government and the automobile makers during the late 1930s and World War II, culminating in the full manufacture of automobiles. Second, the book explores the similarities and differences between the Canadian and Australian car industries, and the connections between them. Finally, it gives a full account of the Australian industry up to the present.

These achievements notwithstanding, the book travels well-worn paths that focus on local developments. It draws on the same set of research materials as earlier authors, a number of whose publications have surprisingly been omitted from the bibliography. For the most part this bibliography contains secondary sources, including numerous government reports, rather than archival material from the firms concerned, although the archives of the Australian government are used to some extent.

The literature on the international automobile industry and multinational enterprises (MNEs) suggests a number of still unanswered questions about the Australian automobile industry. Should the entry of automobile MNEs into Australia, a small market, be seen as part of a wider process of “follow the leader” or as an “oligopolistic reaction” by firms that competed globally? Would either Ford or General Motors contemplate withdrawing while its rival stayed? Does global rivalry between the Japanese firms explain the presence of Toyota, Mitsubishi, and Nissan in this small market? Did any of these MNEs learn from the disastrous Australian

experience not to commit to full production in other markets of a similar size? Why did these leading firms, particularly the American ones, choose not to transfer their best-practice technologies and know-how into Australia before the 1980s and 1990s? Was the acceleration of technology transfer related to the globalization of the industry? Did the small number of component makers providing parts to all the manufacturers compromise the development of productivity? Would it have been better to adopt the kind of exclusive relation between suppliers and assemblers that emerged in the “Toyota” system? How important were barriers to exit in perpetuating the excess number of local producers? An exploration of the business records of the foreign car manufacturers that operated in Australia would allow new questions to be posed.

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