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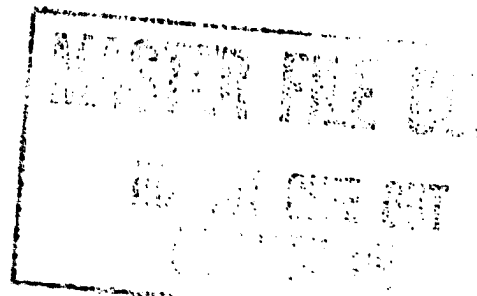
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Australia's Hawke Government: Eying Early Elections



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An Intelligence Assessment



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EA 84-10039
March 1984

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Australia's Hawke Government: Eying Early Elections [Redacted]

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An Intelligence Assessment

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This paper was prepared by [Redacted]
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**Australia's Hawke Government:
Eying Early Elections**



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Key Judgments

*Information available
as of 25 February 1984
was used in this report.*

Prime Minister Hawke has shown considerable political skill during his first year in office, avoiding many of the pitfalls that eroded the credibility of the last Labor government. His relatively conservative economic policies and successful retreat from many of his party's more radical policy positions have resulted in record approval ratings in Australian public opinion polls. These moves, however, further antagonized the party's left wing, and although the left lacks strong leadership, it still has the potential to undercut Hawke's control of the party.

Hawke faces two key issues this year that will test his control over the party:

- Uranium mining and exports—which Hawke supports and the left opposes—will be the central issue at the Labor Party Conference in July. This will be Hawke's first opportunity to imprint his views on the party's policy platform.
- As the 1984 budget debate approaches, Hawke and Treasurer Keating will face mounting pressures within the party and the cabinet to boost spending, despite concern over a record budget deficit.

If Hawke prevails, and we believe he will, he will probably take advantage of domestic economic recovery and the weakness of the opposition Liberal-National Party coalition by calling for early elections in late 1984 or early 1985—a year before his term expires. If he stumbles, particularly on the uranium issue, he will be vulnerable to attacks from the left and possibly face a leadership challenge from Foreign Minister Hayden.



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Australia's Hawke Government: Eying Early Elections

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Hawke at the Helm

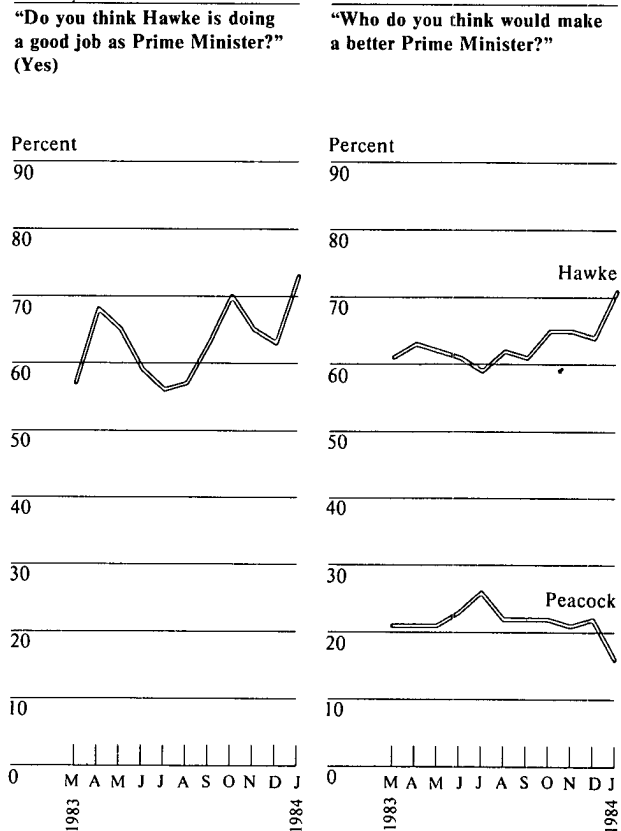
Bob Hawke's first year in office has been marked by moderation and pragmatism in both political and economic affairs.¹ He has reaffirmed the US-Australian relationship and the ANZUS alliance, successfully retreated from his party's more radical platform positions, and pursued relatively conservative economic policies to cope with high unemployment and inflation. Hawke's brand of politics has made him the most popular Prime Minister in recent memory and helped him maintain record high ratings in public opinion polls (see figure 1).

Nonetheless, the Hawke government has not been entirely free of problems. A series of potentially serious security incidents—highlighted by the expulsion of a KGB officer in April 1983 because of his close relationship with a former high-ranking Labor Party official—has marred Hawke's first year in office. As a result of the KGB affair, Hawke faced calls from several state branches of the Labor Party to abolish the Australian Security Intelligence Organization because of perceived civil rights abuses during its investigation. The findings of a royal commission appointed by Hawke absolved the government of any wrongdoing in the KGB affair and largely defused the issue. Hawke escaped with a minimum of political damage

Hawke also has had to contend with cabinet ministers who have spoken out publicly on issues outside their official portfolios and who have released policy statements before obtaining cabinet approval. Although such behavior was largely excused by the electorate while Labor was in opposition, it threatens to undercut confidence in the government by creating the impression that Hawke is not in control of his ministers. Hawke was particularly embarrassed by Minister for Trade Bowen's startling suggestion for a joint Japanese-Australian peacekeeping force in Kampuchea and Minister for Defense Support Howe's criticism of US policy in Central America.

¹ The Labor Party swept into power in March 1983 after seven years in opposition, capturing 75 seats in the 125-seat House of Representatives

Figure 1
Australia: Public Opinion Polls



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These trouble spots, however, have been overshadowed by the Hawke government's strong showing in economic management. Public opinion polls give Hawke high marks for managing the domestic economic recovery. His high-profile style of leadership

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apparently fosters the public's perception that Hawke is the catalyst for change, even though the recovery results largely from factors beyond Hawke's control. Australian and foreign economists point to the agricultural sector's rebound after the worst drought in over a century and improving demand for mineral commodities in Australia's leading trading partners. Nevertheless, Hawke has maintained the confidence of both the domestic and international business communities by:

- Floating the Australian dollar and liberalizing other foreign exchange regulations.
- Preserving, with only minor changes, the former government's liberal policy on foreign investment, despite the Labor Party's platform calling for greater Australian control.
- Pursuing a tight monetary policy to reduce price and wage pressures. [redacted]

Treasurer Paul Keating is, we believe, the driving force behind these policies. His persuasive arguments have effectively undercut opposition views in the cabinet, according to press reports. During the cabinet's budget deliberations in mid-1983, Keating—with Hawke's support—held the deficit to his designated ceiling of \$7.5 billion despite efforts by some ministers to boost spending.² The budget negotiations also revealed another powerful supporter of Hawke's economic policies—Foreign Minister Bill Hayden, whom Hawke replaced as party leader immediately before the 1983 elections.³ [redacted]

Girding for the Battle: The ALP Conference

Hawke's successes over the past year have bolstered his political clout as he moves toward the party's biennial national conference in July 1984. We believe the conference will be the most important test of his tenure in office, because it will provide Hawke his

² All figures in this paper are in US dollars. [redacted]
³ Hayden—an economist by training—is even more fiscally conservative and deficit-conscious than Keating. Well respected by party moderates and a former Treasurer in the last Labor Government, his views carry considerable weight in the cabinet, [redacted]
 [redacted] Hayden has also shown his "conservative colors" by attacking Australia's high levels of protectionism, arguing that it has left domestic exporters unable to compete with more efficient foreign producers. His recent move to strengthen the economic expertise of the Department of Foreign Affairs suggests to us that Hayden wants to maintain a voice in framing economic policy.
 [redacted]

first opportunity to change the party platform he inherited upon becoming party leader in February 1983. If Hawke is able to imprint his views on the party's platform, he will narrow the maneuvering room of the party's troublesome left wing and put a damper on much of the intraparty conflict he has had to deal with. [redacted]

The Threat From the Left. Relations between Hawke and the left have grown steadily cooler over the past year. Although Hawke won widespread—if sometimes grudging—admiration from party members for returning the party to power, the left wing continues to reject his pragmatic approach to policymaking, a situation that has resulted in Hawke's either abandoning or finessing several longstanding party positions (see appendix). The left has threatened to have Hawke censured for ignoring party procedure that requires him to follow the party platform, and senior Hawke advisers continue to worry about the effects of internal party fighting. Mindful of this danger, Hawke has minimized the left's influence in his government. At present, there are only four leftwing representatives in his cabinet and, following the resignation of the Minister of Immigration and Ethnic Affairs in late 1983 over a cabinet vote on uranium, none in the important inner cabinet—Hawke's council of advisers. [redacted]

Hawke can take comfort that the left's strength has been gradually declining since the mid-1970s, when the left garnered widespread support for an unequivocal antiuranium stance. Although several other factors may be responsible, it appears to domestic political observers that a growing conservative trend among Australians has left Labor Party radicals without a clear agenda beyond the uranium issue. In addition, the left now lacks strong leadership and its factions have become divided and strained. Nevertheless, because of the generous coverage it receives in Australia's left-leaning press, the left has the potential to undercut public confidence in Hawke and his control over the party. [redacted]

The Uranium Issue. The left will bring all its influence to bear on the uranium debate, which we believe will be the most important issue at the conference.

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This political cartoon depicts Hawke's strategy for winning the uranium debate. It also illustrates one of his greatest political strengths—the ability to finesse issues either by working out compromise policies or by waiting out the opposition while slowly gaining public approval for his position.



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The Age ©

The battlelines between the Prime Minister and the left have already been drawn.⁴ Hawke is a longtime supporter of uranium development in Australia; the left is committed to stopping all uranium mining and exports. The last ALP Conference in 1982 resulted in a compromise policy that supported a gradual phase-out of the industry, but permitted the honoring of existing contracts. Although the compromise was a far cry from what the pro-uranium faction wanted, press reports indicated both sides saw the new policy as the first step toward an inevitable turnaround in the party's position.

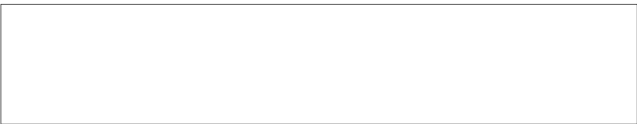
Hawke will probably push at the conference for a uranium policy that permits additional export contracts for Roxby Downs and the two operating mines in the Northern Territory. Beyond this, Hawke may not encourage development of additional new mines even if he is successful at the conference. The weak international uranium market will persist for some time and will probably support only one new domestic uranium mine,

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Hawke's position was strengthened last December, when a left-sponsored caucus vote, calling for reaffirmation of the party's antiuranium platform, was soundly defeated. As a further step toward a more liberal uranium development policy, Hawke recently gained party approval for continued development of the huge Roxby Downs mine in South Australia and for a government inquiry into nuclear safeguards and Australia's role in curbing nuclear proliferation. If the inquiry—scheduled for completion by midyear—supports uranium development, as we believe it will,

In our judgment, Hawke's greatest leverage on the uranium battle will come from public support. On uranium, as with other issues, Hawke makes his appeal on the basis of "bread and butter" concerns, rather than on ideology. According to a recent report released by the Prime Minister's office, the shutdown of Australia's uranium industry would cost \$6 billion in lost export earnings and 20,000 new jobs over the next decade. In addition, because of Australia's early history in gold and silver mining, the mining industry in general has developed a folklore status in the minds of many Australians. This image grew during the mineral resources boom of the late 1970s, when many Australians saw mining as the key to economic prosperity. Thus it is not surprising that a recent poll

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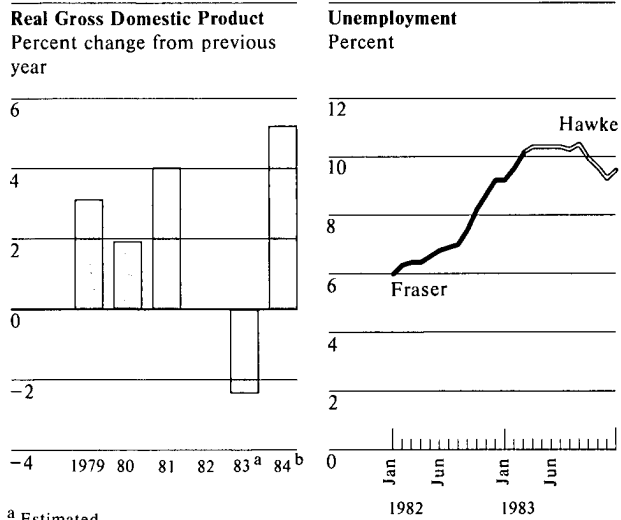
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found that more than 66 percent of Australians believe uranium mining should continue, including 60 percent of ALP voters. Moreover, the unions involved in uranium mining and transport have pledged to support the industry, despite the antiuranium position of the Australian Council of Trade Unions (ACTU).

Hawke is approaching the uranium battle as if it were trench warfare—the gains are gradual and hard won. He has been forced to work harder on the uranium issue than on others and has become involved in cultivating caucus members and playing the numbers game. He even went so far as to demand complete support from his cabinet members—a gamble that worked but resulted in the resignation of one minister. We believe Hawke is approaching his goal with uncharacteristic cautiousness because he recognizes both the tenacity of the opposition and the high political cost of failure. Indeed, the Australian press sees the uranium battle as a litmus test of the left's future influence in the party and the Hawke government. Although most political observers believe the fight will be tough, they are cautiously predicting that Hawke will win.

A Challenge by Hayden? If Hawke stumbles, on the uranium issue in particular, he could face a leadership challenge from Hayden—who resigned under pressure as party leader in February 1983. The intense rivalry between Hawke and Hayden has been an important political undercurrent since Hawke assumed office. Political observers believe Hayden remains bitter over being denied what he felt was a sure shot at the prime-ministership. Hayden still takes occasional off-the-record jabs at Hawke, We believe Hayden's push for influence on economic and defense issues and his continued sensitivity to some of the demands of the left illustrate his interest in regaining the party leadership. On the other hand, Hayden is clearly enjoying his position as Foreign Minister, according to US Embassy officials, and has been given a relatively free rein by Hawke. Because of this and the political risks of a leadership challenge, we believe Hayden will proceed cautiously and see how matters develop at the conference.

Figure 2
Australia: Selected Economic Indicators



^a Estimated.
^b Projected.

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The Looming Budget Battle

Like the ALP Conference, the budget debate this year will be a test of Hawke's control over his party. As the economy improves, we believe Hawke and Keating will face greater pressures to increase spending. Many ministers, including Deputy Prime Minister Bowen and Labor Relations Minister Willis, are already arguing for greater spending to make good on Labor's election commitments to create jobs and improve social programs. For his part, Keating is concerned that continued large budget deficits coupled with a revival in business credit demands will push up interest rates to levels that will slow if not abort the economic recovery. In public statements and in the cabinet, Keating—with Hawke's support—is pushing for a reduction in the deficit for the fiscal year that begins 1 July. Both Keating and Hawke argue that excessive spending in the 1984-85 budget will erode

The Australian Economy in 1984: Good News for Hawke

It is generally accepted by political observers in Australia that Hawke is anxious to take advantage of the domestic economic recovery (see figure 2). The economy is rebounding strongly from its dismal performance in 1983—the worst in 20 years. The OECD expects real GDP growth of over 5 percent this year, the strongest in any OECD country. [redacted]

The largest single factor in the improved outlook is the end of a disastrous four-year drought. Favorable weather is resulting in a record 19-million-metric-ton wheat harvest and good harvests of other cereal crops. Bolstered by improved international prices, Australia's six major agricultural products—wheat, wool, meat, sugar, barley, and dairy products—are expected to be among the country's top 10 export earners this year. The Bureau of Agricultural Economics expects farm incomes to increase by nearly 75 percent in 1984, a rise that will replenish farmers' cash reserves and boost the demand for farm equipment. All told, the Bureau estimates that the rural sector will add at least 2 percentage points to GDP growth in 1984. [redacted]

The most important short-term benefit of the recovery for Hawke is its positive impact on unemployment, a problem he promised to tackle during last year's election campaign. The unemployment rate has already fallen—from a record 10.4 percent in September 1983 to 9.2 percent in December 1983. Although it inched back up to 9.5 in January 1984, we expect it to resume declining in the months ahead. [redacted]

confidence at home and abroad in the competency of economic management. Continued high deficits, they say, will hurt the Australian dollar in foreign exchange markets and, in turn, Labor's political fortunes. [redacted]

Hawke and Keating will probably use the strength of the recently floated Australian dollar as leverage in the budget fight. They have started to argue that as a result of the float, the electorate now sees the value of

Despite the improvements, however, some Australian economists believe that Hawke could have made greater gains on unemployment if he had not struck a wage and incomes bargain with organized labor. Given the weakness in the labor market, full indexation has kept real wages in Australia higher than they would have been under collective bargaining. In recent talks with the IMF, Australian officials agreed with this assessment. Nonetheless, they believe that the policy will prove successful in the medium term by holding down wage increases when the labor market tightens. This view depends on unions honoring their promise not to push for wage increases above the indexed amount, a promise that—in our judgment—will become harder to keep as the economy continues to improve. [redacted]

In any case, we believe all the elements for a sustained recovery are not yet in place. For one thing, private-sector investment—particularly in the important mining industry—remains weak. The IMF is also concerned that government borrowing because of record budget deficits will put upward pressure on interest rates and crowd out any rebound in private-sector borrowing. Interest rates have already increased 2-percentage points from their December 1983 trough. Because most analysts believe that Canberra will find it difficult to reduce the deficit in an election year, they are not convinced that strong growth will be sustained in 1985. [redacted]

the dollar as a barometer of the strength of the economy. Since the dollar was allowed to float last December, it has appreciated slightly to 94 cents. [redacted]

Trade unions will also probably enter the budget battle. Last year they agreed to a wage indexation scheme but the introduction of Medicare will shave

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nearly 3 percentage points off the inflation adjustment rates for the March and June quarters of 1984. Thus, the third indexation pay hike in October—based on the inflation rate over the previous six months—will be small at a time when corporate profits may be showing impressive gains. With this in mind, the ACTU is already pushing the government for tax cuts in this year’s budget in exchange for its continued support of Hawke’s wage-price accord.⁵ ACTU Secretary Bill Kelty has privately pursued this proposal with Canberra, according to press reports, and is stating it publicly at union meetings. We expect that the improving economy and slowly declining unemployment will give Hawke some leeway on income tax cuts because both factors will act to lower the deficit. [redacted]

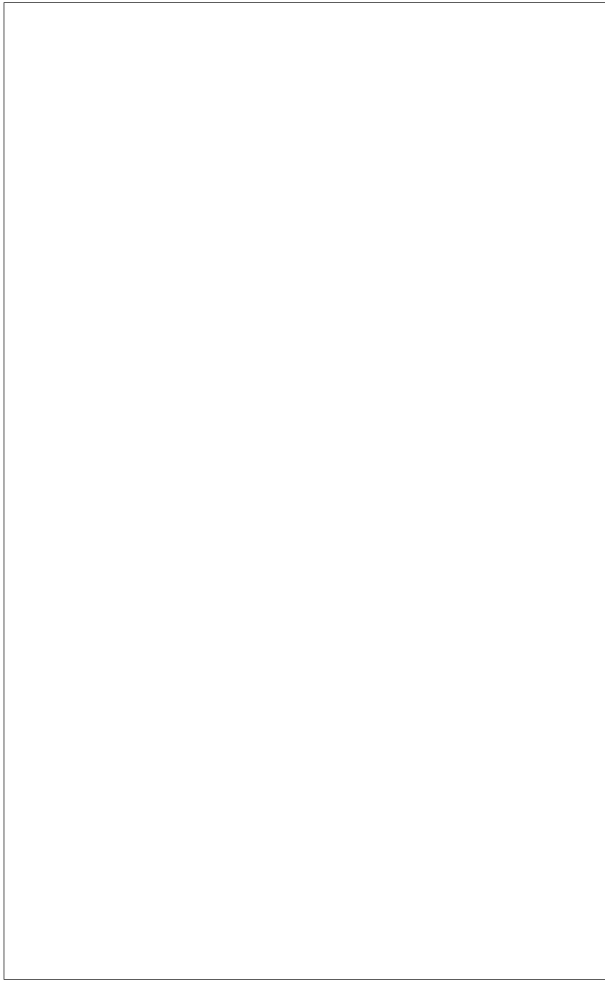
An Early Election in 1984?

If Hawke prevails at the ALP conference and wins the budget battle, we believe he will take advantage of his strong political position and call for early elections in late 1984 or early 1985. Hawke has already done more than hint at the possibility, and many of Australia’s politically astute newspapers are treating it as a foregone conclusion, if for no other reason than the upswing in the economy. At a projected 5 percent, economic growth in 1984 is expected to be the strongest in the OECD. [redacted]

We believe Hawke sees an early election as an opportunity to further reduce leftist influence in the ALP and to reshuffle several key cabinet positions. A new election mandate for Hawke would signal to left-of-center Labor members of parliament that the left is out of step with both the party and the Australian electorate. In addition, the past year has given Hawke an opportunity to “grade” his ministers, and, although it is not yet clear how great a cabinet shakeup might be, political observers believe Defense Secretary Scholes is a likely candidate for replacement following his involvement in the politically damaging “Invincible aircraft carrier incident” (see appendix). [redacted]

Opposition Weaknesses. If Hawke calls an early election, he would also be trying to capitalize on the poor performance of the opposition Liberal–National

[redacted]



Party coalition. Thus far, it has proved incapable of launching any effective political attack on the Hawke government. Liberal Party and opposition leader Andrew Peacock—who had performed very well in the Fraser government and was pegged as a future prime minister by the Australian press—has proved a woefully inadequate foil for Hawke [redacted] many members of his own party. Perceived as being more style than substance, Peacock has been hampered by his party’s inability to present cogent alternative policies. On both economic and political questions, moderate Liberals have had difficulty distinguishing their own philosophy from that of the equally moderate Hawke government. [redacted]

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A leadership challenge in the Liberal Party has been frequently mentioned in the Australian press because of Peacock's disappointing performance. Without an attractive alternative to Hawke, however, [redacted]

[redacted] there is little rationale for a potentially damaging party shakeup. In our judgment, if there is to be a leadership change, it will have to come soon in order to give Peacock's replacement a chance to strengthen the party under new leadership and launch a sustained challenge to Hawke in preparation for early elections. [redacted]

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Appendix

Traditional Leftwing Issues

We expect the left to concentrate its efforts on the uranium debate. It will also probably revive several other issues that were hotly debated at the last ALP Conference in July 1982. [redacted]

US-Australian Security Arrangements. Bilateral defense cooperation—including operation of joint communications and tracking facilities, US Navy ship visits, B-52 training flights, and MX missile testing—is a sensitive issue closely linked to the uranium debate.⁶ The public furor late last year over Canberra's waffling on Britain's request to drydock the aircraft carrier *Invincible* in Sydney, for example, disclosed several glaring inconsistencies in Australia's antinuclear policy. In addition, the left wing remains opposed to the continued operation of US-Australian joint facilities because they are seen as compromising Australian sovereignty and increasing the likelihood of Australia's becoming a nuclear target. Hawke, we believe, hopes that the government's recent public statement clarifying drydocking policy and a likely public statement on the joint facilities will undercut leftwing criticism well before the July conference.

[redacted]

Aid to Vietnam. As part of its 1982 platform, the Labor Party is committed to resuming economic aid to Vietnam, which was cut off by the Fraser government following the invasion of Kampuchea. The left wing argues that keeping Vietnam isolated from the West increases its dependence on the Soviet Union and reduces the prospect for a peaceful settlement in Kampuchea. This stand has caused considerable concern among ASEAN countries, and, coupled with Canberra's refusal last year to cosponsor the annual UN resolution on Kampuchea, is taken as tacit approval of Vietnam's role in Kampuchea. After months of postponement, the Hawke government appears to have found a middle path that has satisfied ASEAN and temporarily appeased the party's left

wing. After several severe typhoons this winter damaged Vietnam's rice crop, Canberra decided to provide \$450,000 in aid through the United Nations' disaster relief organization. The Hawke government has clearly stated that the relief does not constitute an official resumption of Australia's bilateral aid program. For its part, the left will probably push for a resumption of Australia's economic aid program, arguing that disaster relief is only a first step. [redacted]

Sinai Peacekeeping Force. Another facet of the Labor Party's 1982 platform called for the withdrawal of Australia's 100-man contingent from the Sinai peacekeeping force. Nevertheless, Hawke wants to maintain Australia's presence in the Sinai. In addition to being concerned over foreign reactions to withdrawing the contingent, he is a longstanding and passionate supporter of Israel. Using the excuse of "changing circumstances," Hawke has postponed any decision on the force until he and Hayden have the opportunity to discuss the matter with both Israeli and Egyptian officials. Although Australia's official commitment to the force ends in April 1984, Hayden indicated to the press following his recent trip to the Middle East that Canberra will probably renew its commitment. [redacted]

East Timor. The Hawke government places considerable importance on establishing warmer relations with Jakarta and has gradually retreated on the Labor Party's traditional condemnation of Indonesia's 1976 takeover of East Timor. The postponement of the UN resolution on East Timor last October until next fall and the favorable findings of an Australian parliamentary delegation that visited East Timor have undercut leftwing criticism and given Hawke more time to win over public support on this issue. At this point, political observers expect Hawke to follow the example of the former Fraser government and abstain from voting on the UN resolution later this year. Nonetheless, the prospect of continued low-level fighting and food shortages in East Timor will keep the issue alive at the party conference. [redacted]

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