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Industry Policy and Jobs
Roy Green

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INDUSTRY POLICY AND JOBS

This paper is an attempt to outline the relationship between industry policy and job creation, where industry policy is defined broadly as a set of measures intended to improve manufacturing performance in the Australian economy. It begins from the assumption that this relationship is not direct but operates via the effect of improved productivity and competitiveness on the balance of payments. In other words, the consequence of a more competitive manufacturing sector is likely to be jobs growth in areas other than manufacturing, such as services and the retail sector.

The paper suggests that Australia's fundamental economic problem remains the balance of payments constraint on the growth of output and employment, and that there is no automatic or spontaneous process by which manufacturing will become competitive as a result of tariff reductions. The potential impact of a targeted demand stimulus, comprising infrastructure, training and short-term job creation programs of the kind pursued in last year's One Nation and August Budget packages, is limited by the absence of coherent industry policy measures to tackle longer term supply side weaknesses reflected in the widening current account deficit. For example, the only new measure in the Budget which addressed these weaknesses was a $75 million scheme to boost exports, and even this modest initiative was resisted by those who see no difference between targeted export assistance and tariff protection.

For neo-classical economists, unemployment is due not to the market mechanism itself but rather to factors which prevent the market from operating as the theory suggests it should. Once 'impediments' in the labour market, such as trade unions and wage-fixing tribunals are removed, then market-clearing prices for labour will restore full employment equilibrium, or in more recent versions of the theory, the 'natural' rate of unemployment. In the product market, too, the allocation of resources according to market signals - the 'level playing field' - is said to
optimise economic welfare and efficiency. Here, the impediments are tariffs and industry assistance of all kinds which ‘distort’ resource allocation and penalise consumers, though their removal is no guarantee that new industries and jobs will emerge in the place of those which have disappeared.

The paper challenges the free market model and proposes an alternative based not just on natural comparative advantage but on the ‘competitive advantage’ created by skills and ingenuity. We shall see that this alternative does not necessarily imply the adoption of bureaucratic state planning - it is a case for a new tripartite framework in which employers, unions and workers themselves can contribute to strategies for their companies and, more widely, for sectors of industry. Its main elements are, first and foremost, the problem posed by Australia’s balance of payments constraint, second, the need for manufacturing industry to compete successfully in world markets, third, the impetus provided by workplace productivity bargaining and, fourth, the role of coordination and cooperation in a complex global environment. After some general remarks about the rationale for industry policy, the paper will look at these elements in turn.

Why industry policy

The central argument of the paper is that a world competitive manufacturing base is the key to long-term growth and jobs in Australia, and that intervention in the market place through a broadly based industry policy has a part to play in promoting this objective. The argument takes as its starting-point two separate lines of criticism of the neoclassical orthodoxy. The first is that the market mechanism simply does not work in the way implied by the orthodox approach, and so there is no point in developing models whose equations are based on the assumption that it should. This criticism stems from the attack on the theory of ‘perfect competition’ in the early part of the century first by the American Institutionalists and then by the radical economists of the Cambridge school, and it acquires added force according to, for example, the ‘strategic trade’ theorists (Krugman 1988) from the vastly increased complexity of technology, markets and
the production process in the period since. The point here is that those factors which are characterised as ‘impediments’ in the orthodox approach have, in the right combination, contributed to the superior economic performance of countries like Germany and Japan (Fitzgerald 1990, Carroll 1992). Why, it is consequently asked, should we allow ourselves to be held hostage by a theory?

The second criticism attributes to the orthodox approach its strongest case by accepting for the sake of the argument that the forces of demand and supply are operating without impediments, and that, at least in this sense, markets are allowed to ‘work’. However, once savings are brought into equilibrium with investment, the notion that all markets (including the labour market) ‘clear’ cannot be sustained even on its own terms. The message of Keynes’s General Theory is that the equilibrium level of output in the economy may not correspond with the full employment level of output (Keynes 1936, Green 1992). Moreover, in the absence of intervention, there are no corrective tendencies in the free market model which would act to reduce the resulting level of unemployment. This message was lost in the ‘new classical’ revival of the pre-Keynesian idea that the economy may be viewed as a self-regulating mechanism - which left to itself will produce optimal outcomes - but it has more recently been regained as governments around the world grope with a crisis of recession followed by ‘jobless growth’.

While governments may take action on the demand side to boost output and employment, through a general fiscal stimulus or through targeted job creation, there is a limit to such action, and that limit is set primarily by the balance of payments. Consequently, the only way to secure growth and jobs in the long-term is to take action on the supply side as well by improving the productivity and competitiveness of the traded goods sector of the economy, which, without a dramatic upturn in the prospects for commodities, means sharpening the focus in Australia on our small but increasingly sophisticated manufacturing sector. This will require an effective industry policy, not just at national level but also at State or regional level, to encourage investment in value-added activities and move
firms onto a high productivity, high wage path. As Laura D'Andrea Tyson, President Clinton's new chief economic adviser, argues, 'cautious activism' is appropriate in relation to these activities because they

violate the assumptions of free trade theory and the static economic concepts that are the traditional basis for US trade policy. In such industries, costs fall and product quality improves as the scale of production increases, the returns to technological advance create beneficial spill-overs from other activities, and barriers to entry generate market structures rife with first-mover advantages and strategic behaviour. A nation's competitive position in industries with these characteristics is less a function of its natural factor endowments and more a function of strategic interactions between its firms and government, and between them and the firms of other nations. (Tyson 1992, p. 3)

Balance of payments constraint

While industry policy may create jobs, it will not always do so directly. By contributing to improved manufacturing competitiveness, as already suggested, it will play a significant role in overcoming the balance of payments constraint on the growth of output and employment. This will enable the Federal Government to pursue fiscal and monetary policies conducive to economic growth in tandem with a more effective micro emphasis on investment, innovation and 'best practice' production techniques and work organisation. It will also enable depressed regional economies to compete not for a larger share of employment in a given and fixed national labour market, but for new, additional jobs, which, paradoxically, are likely to come on stream most rapidly in sectors other than manufacturing, such as services and retail trades.

However, even in the depths of recession, Australia experienced a current account deficit for 1991/92 of $11.8 billion, which is forecast to deteriorate further to around $16 billion this year as recovery gets under way. The biggest component of
the deficit by far was the $15.7 billion interest bill on foreign debt, largely incurred by the private sector during the speculative binge of the 1980’s. Unfortunately, as a recent Economic Planning Advisory Council paper on options for current account adjustment has shown (EPAC 1992), this has now become lead in our saddle, restraining any ‘dash for growth’ within relatively tight fiscal boundaries. In fact, without this interest bill, our external account would have appeared much more robust. We earned a surplus on our merchandise trade of $3.9 billion, with manufactured exports contributing more than $10 billion, which continues an upward trend begun as tariffs came down after 1983 and targeted industry plans were introduced for specific industry sectors, such as steel, cars, heavy engineering and textiles, clothing and footwear.

The problem is that imports, which have temporarily been held back by recession, are now showing signs of resuming their upward trend as well, outpacing export growth. Yet it has become fashionable to argue that the current account does not matter so long as the rest of the world is prepared to finance it through capital inflows. There are at least two objections to this view, which have recently been set out for the UK by Tony Thirlwall, but which also have much broader application. The first objection is that “interest rates will be higher than otherwise would be the case in order to finance the deficit, or to stop the currency from depreciating” (Thirlwall 1992, p. 3). This is illustrated by the relationship between trends in the current account and real interest rates over a number of years not only in the UK but also in Australia (see Figure 1), where real interest rates have been among the highest in the industrialised world. This has had a ruinous effect on investment, which is the essential precondition for long-term growth and competitiveness, as shown by the fall in the growth of Australia’s capital stock to an historic low of 1.5% in 1991/92, compared with a 4.2% annual average (ABS 1993).
Figure 1
Interest Rates and the Current Account

secondly, Thirlwall continues, "no country in the long run can grow at a rate faster than that rate consistent with balance of payments equilibrium on current account unless it can finance an ever growing deficit - which in general it cannot" (Thirlwall 1992, p. 4). In other words, the balance of payments becomes the ultimate constraint on growth, raising the spectre of a damaging stop-go cycle which again we have been experiencing here in the recent past. Some economists, however, who adhere to the so-called 'consenting adults' approach to the balance of payments and share the criticism of the recent conduct of monetary policy, would still respond by asking what is wrong with allowing adjustment to take place in the value of the currency, as opposed to interest rates. The answer is necessarily a complex one, because so many factors are involved, but a number of observations may be made about depreciation as the intended effect of a strategy, or even as the strategy itself.
(a) the 'success' of depreciation depends upon a shift in resources from wages to profits, which are assumed to be invested productively, and this in turn requires wage restraint so that workers do not attempt to compensate for the loss of purchasing power implied by an increase in the prices of imported goods. While depreciation may work as a short-term expedient, leaving aside the practical issue of union compliance, it will not be effective indefinitely, for there is nothing to be gained by replacing a high wage, low productivity economy with a low wage, low productivity economy.

(b) depreciation also entails an indiscriminate shift in resources from importers, irrespective of whether they are producers importing machine tools or consumers importing Perrier water, to exporters and import-competing firms, irrespective of their level of efficiency and competitiveness. In other words, it is a disguised substitute for industry policy but one without the ability to differentiate between sectors of the economy with clear potential in world markets and those lacking such potential, and between firms which are efficient and those which are not.

(c) finally, depreciation inevitably means that foreign debt, which is denominated in overseas currency, will grow in $A terms correspondingly with the fall in its value, implying an increase in capital repayments and hence further deterioration in the current account, though debt service will vary according to the trend in world interest rates. It is not difficult to envisage a situation where continuing, endemic depreciation makes it impossible for a country like Australia to escape its debt trap, with any gains in competitiveness being offset by the share of export income allocated to debt repayment and servicing.
In Australia, recent calculations by the Employment Studies Centre at the University of Newcastle show that just to stabilise net foreign debt at 36 per cent of GDP will require a shift in the balance of trade to a surplus of about 1 per cent of GDP. Without that, external stability can be achieved only at the cost of low growth and high unemployment (see Table 1) (Green, Mitchell and Watts 1992). A similar conclusion was drawn by the EPAC study referred to above, which also set out two ‘adjustment scenarios’ - a slow adjustment scenario requiring export growth of at least 4.5% per annum and a fast adjustment scenario requiring 5.5% on various assumptions about import penetration (see Table 2) (EPAC 1992). In other words, the alternative to the low wage, low productivity economy envisaged by the free market model is one which, as we shall see, consciously promotes a dynamic, export competitive manufacturing sector.

Table 1.
Required surpluses on goods and services expressed as percentage of GDP

<table>
<thead>
<tr>
<th>Real Interest Rate</th>
<th>Real Growth Rate of GDP</th>
<th>0%</th>
<th>1%</th>
<th>2%</th>
<th>3%</th>
<th>4%</th>
<th>5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>1%</td>
<td>0.70</td>
<td>0.35</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>1.95</td>
<td>1.95</td>
<td>1.59</td>
<td>1.24</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>2.30</td>
<td>2.30</td>
<td>1.94</td>
<td>1.59</td>
<td>1.24</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>2.65</td>
<td>2.65</td>
<td>2.28</td>
<td>1.93</td>
<td>1.58</td>
<td>1.24</td>
<td>0.00</td>
</tr>
<tr>
<td>6</td>
<td>3.00</td>
<td>3.00</td>
<td>2.63</td>
<td>2.27</td>
<td>1.92</td>
<td>1.57</td>
<td>1.23</td>
</tr>
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</table>

Source: Green, Mitchell, Watts (1992)
Table 2.
Export Growth Required:
Alternative Scenarios.

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>slow adjustment</td>
<td>4.4</td>
<td>4.3</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>(5.3)</td>
<td>(4.1)</td>
<td>(3.6)</td>
</tr>
<tr>
<td>fast adjustment</td>
<td>5.7</td>
<td>4.7</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td>(5.0)</td>
<td>(4.0)</td>
<td>(3.7)</td>
</tr>
</tbody>
</table>

(a) Average % p.a. growth in export volumes. (Numbers in brackets are the respective growth rates of import volumes.)

Memo: Export volumes grew at an average 4.8% p.a. and 4.7% in the 1970s and 1980s respectively. Import volumes grew at 3.6% p.a. and 6.7% p.a. in the 1970s and 1980s respectively.

Source: EFAC (1992)

Manufacturing matters

We now know that it will not be possible to generate trade surpluses of the required magnitude through a continued reliance on primary commodity exports. Not only are these a declining proportion of world trade but their relative prices have also been falling steadily over the post-war period. Recent Reserve Bank figures suggest that a reversal of this trend is unlikely, with a 6% drop in commodity prices in the latter part of 1992, particularly affecting the rural sector, which has been caught up in an unrelenting international trade subsidy war. Moreover, the increased commodity export earnings forecast for 1992/93 by ABARE were largely accounted for by the SA depreciation, and, although there may be some growth in the value and volume of mineral exports, this is not expected to be a significant contributing factor. The theory of comparative advantage has, in effect, locked Australia into a downward spiral of competitive disadvantage (Porter 1990).
The source of net export growth in the future lies in manufacturing, especially elaborately transformed manufactured products (ETMs), which comprise the largest and fastest growing segment of world trade (Figure 2). Yet the legacy of tariff protection in Australia is a 'sheltered workshop' manufacturing sector. That is why the Government was essentially right to pursue its carefully phased program of tariff reductions. The problem, however, was that, without a clear and coherent industry policy to support it, the development of export competitive manufacturing was made to depend entirely upon the market, or what boils down in the Treasury models to 'spontaneous entrepreneurial combustion'. (Nor, as we have already indicated, were the prospects for manufacturing assisted by the blunt instrument of monetary policy, which shut off productive investment just as effectively as it did asset speculation.)

Figure 2
ETM's (%) of Total World Trade

While the Federal Government has understandable made much of the growth in manufacturing over its period of office, it should be placed in perspective. This growth started from a very low base, and still leaves simply and elaborately transformed manufactured exports taken together at a relatively small 21 per cent of Australia’s total exports (Figure 3). Similarly, the tripling of ETM exports since 1983 to over $10 billion needs to be set against the fact that they constitute less than 20 per cent of merchandise exports but more than 65 per cent of merchandise imports. In other words, despite an overall manufacturing surplus, we are stuck with a $22 billion deficit in ETMs. This is a gap which may be measured not only in present dollar values but also in lost opportunities to gain a competitive edge in world markets through Kaldor’s technological investment-led process of ‘cumulative causation’.

Figure 3.
Composition of Exports.

<table>
<thead>
<tr>
<th>Average of 1979-80 to 1981-82 shares</th>
<th>Average of 1989-90 to 1991-92 shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>17% Rural</td>
<td>20% Rural</td>
</tr>
<tr>
<td>9% Resources</td>
<td>23% Rural</td>
</tr>
<tr>
<td>7% Gold &amp; Other Non-Rural</td>
<td>14% Rural</td>
</tr>
<tr>
<td>2% Simply Transformed Manufactures</td>
<td></td>
</tr>
<tr>
<td>27% Elaborately Transformed Manufactures</td>
<td></td>
</tr>
<tr>
<td>9% Services</td>
<td>27% Services</td>
</tr>
</tbody>
</table>

Source: Budget Papers, 1992/93.
What can be done? So far, the Federal Government's approach to manufacturing has encompassed ad hoc industry plans, offsets policies, depreciation allowances and the setting up of various bodies, such as Austrade, the National Industry Extension Service and Australian Centre for Best Practice, to advise firms on new production techniques, work practices and market opportunities. These measures have been replicated at State level, where competitive bidding for major investment projects has taken on a momentum of its own - a momentum which is often self-defeating (Green and Genoff 1993). Yet the measures, whatever their individual merit, do not add up to a coherent industry policy, particularly when put in the context of the high interest rate and exchange rate regime of the late 1980's (Jones 1992). In the end, the weight that should have been carried by industry policy, especially to promote investment, productivity and competitiveness, fell upon wages policy instead.

**Workplace bargaining**

Most commentators now acknowledge that the Accord wages policy played a key role, at least initially, in promoting non-inflationary growth, though there is some disagreement about whether wage restraint or aggregate demand expansion was responsible for the simultaneous rise in employment over that period (Chapman et al 1991). It soon became clear, however, that the resources released by wage restraint were being directed not to productive investment but to takeovers and asset speculation. The result was that while Australia enjoyed the fastest jobs growth in the OECD, productivity had stalled in just the areas where improvements in competitiveness were urgently required. Paradoxically, this was further compounded by wage restraint to the extent that relatively cheap labour became a disincentive to investment in labour-saving technology (Burgess 1990).

More recently, the carefully managed transition to workplace productivity bargaining, within the framework of the centralised arbitration system, has shifted the focus from restraint of nominal wages to control over real unit labour costs. In other words, the growth of nominal wages now matters less to firms than the
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More recently, the carefully managed transition to workplace productivity bargaining, within the framework of the centralised arbitration system, has shifted the focus from restraint of nominal wages to control over real unit labour costs. In other words, the growth of nominal wages now matters less to firms than the
growth of total wage costs per unit of output, and even the preoccupation with
cost control itself is increasingly overshadowed by an emphasis in leading firms
on longer term dynamic efficiency factors, such as quality, service and delivery.
The October 1991 National Wage Case decision gave effect to this new approach
to wages policy in its path-breaking Enterprise Bargaining Principle (EBP),
opening up the prospect in Australia of management-workforce cooperation at the
workplace to achieve a high wage, high productivity economy. In this sense, like
award restructuring, the introduction of productivity bargaining as part of Labor's
Accord with the ACTU was an attempt to realise the objectives of industry policy
by other means.

The importance placed upon joint consultation and agreement in the EBP gives
workers and union representatives an opportunity for the first time to influence
investment decisions directly, and consequently to strike a balance between
investment and consumption in the collective bargaining process itself. Indeed, to
the extent that 'industrial democracy' is no longer an abstraction but an integral
part of the bargaining agenda, two results are likely to follow. First, formal pay
policies with across-the-board limits on wages growth will become unnecessary in
future Accord arrangements, and, second, company performance will improve
since, as analysis of the Australian Workplace Industrial Relations Survey
(AWIRS) has already shown, it tends to vary according to the 'intensity of
The success of Accord Mark VII will likewise depend upon further steps towards
a decentralised bargaining focus, which may include equity as well as productivity
components.

However, the main drawback of workplace bargaining, at least from the viewpoint
of Australia's manufacturing prospects, is its fragmented and uncoordinated
character. This is where industry policy fits in, because it would permit the
development of company investment strategies within a wider framework of
strategies for each sector of industry. The world-wide shift from low cost mass
production to high quality flexible manufacturing has reinforced the importance of
sector strategies, especially given the trend to smaller, more interdependent production units. Moreover, as we shall see, it has made redundant old debates about central planning versus markets, which turned on whether the state or private employers should control the key economic decisions of the nation, with the skills and initiative of workers themselves now becoming a vital ingredient in company strategy and performance (Green and Wilson 1984, Dertouzos 1989, Best 1990).

Sector strategies

The objectives of industry policy in the 1990's are clear and very different from those of the 1929 Brigden report, which provided the theoretical justification for Australia's tariff policy and centralised wage-fixing - and an easy target for opponents of any interventionist measures. The report made the point that "the maximum income per head for Australia would probably be obtained by reducing it to one large sheep-run with the necessary subsidiary and sheltered industries," but concluded that "there is more to be said for protecting an industry because it employs labour at good wages than for any other reason" (Brigden 1929, pp. 70, 119). This approach amounted to not much more than an import substitution policy, which was to redistribute commodity surpluses to manufacturing, but it ultimately became untenable from a national perspective, as we have seen, with the deterioration of international markets and terms of trade for primary producers.

More recently, two possible approaches to industry policy have emerged. The first is to pretend not to have one in the belief that the deregulation of product markets will of itself promote efficiency and competitiveness, and hence economic welfare. The potential gains from this approach are modest even in its own terms. For example, it is estimated in the Federal Government's 1991 statement on tariff reform, Building a Competitive Australia, that a reduction in the effective rate of assistance from 12% to 5% by the year 2000 will result in a net gain to GDP of only 0.5% of GDP or $1.7 billion at 1988/89 prices (Australian Government 1991).
Nor is there any mechanism in this approach by which increased efficiency is to be generated, except by the culling of inefficient firms, which could have the unintended consequence of reinforcing Australia's dependence on commodity exports - quite apart from contributing to the senseless waste of resources associated with unemployment ('Okun's gap').

The free market approach fails to recognise that world trade today is characterised not by comparative advantage but by competitive disadvantage for resource-based economies. This occurs for two reasons. In the first place, there is a tendency in these economies for the exchange rate to rise above the level at which manufactured exports and import substitutes can become competitive, even with significant efficiency improvements. Examples include the recent North Sea oil and gas discoveries (the 'Dutch disease') as well as the Australian resources boom (the 'Gregory thesis'). Secondly, compounding the disadvantage, these economies are then locked out of the fast growing, high value added segments of the world market, which are dominated, ironically, by resource-poor, manufacturing economies such as Japan and Germany. This is a different world indeed from the one inhabited by David Ricardo and the anti-Corn Law League, as even the more enlightened elements of the Federal Opposition have at last begun to comprehend (Vanstone 1993).

The second approach to industry policy is typified by the 1979 Crawford report on structural adjustment, which identified the need for "gradual reductions in some Australian protection levels" but only as part of a coherent and consistent "industrial development policy" (Crawford 1979). More recently, the Australian Manufacturing Council (AMC) has taken this approach further, and, drawing upon the experience of other countries and regions, has made the case for improving competitiveness in conjunction with tariff reductions rather than undertaking tariff reform in isolation from other policy instruments (AMC 1990). Although the exact form these instruments should take has had less attention in Australia, it should be noted that there is just as little point in substituting decisions by a government bureaucracy for those of the market as there is in
leaving those decisions entirely in the hands of companies. This was the lesson not only of central planning in Eastern Europe, but also of Britain's 1965 National Plan, which failed to address company strategy, and 1975 Industrial Strategy, which did so by attempting to impose government control.

Instead, industry policy, if it is to operate in an effective and accountable manner, must be the function of a tripartite body, such as the recently abolished National Economic Development Council in Britain, with not merely an advisory role but executive decision-making powers (Eatwell and Green 1984, Sugden 1991). This body could be a revamped AMC at national level, possibly integrating the macro perspective of EPAC and trade functions of the Trade Development Council as well. Its credibility would derive from the built-in capacity both to involve companies and unions in the development of agreed strategies for sectors of industry and to assist in their implementation. However, the body would not need to 'pick winners', because winners would be companies with the scope and capacity to pick themselves as part of strategies to which they have contributed in their own sector committees. Indeed, it would only be in the context of these strategies that companies would become eligible for export assistance or tax concessions, rather than through the indiscriminate approach to corporate tax cuts and depreciation allowances which passes for cost effective policy in the Federal Treasury.

Essentially, the sector strategies would build upon joint negotiation and agreement at the workplace and emphasise 'networking' between companies, closer producer-user linkages, technology transfer and, where necessary, export facilitation measures. The aim here is competitive advantage through cooperation and 'clustering', not protection by another name (Best 1990, Mathews 1990, Coates 1992). Moreover, the fruits of success would be substantial. As a small scale example, the Employment Studies Centre has used the 1986/87 Input-Output Tables (ABS 1991) to calculate the total effect of $100 million of import replacement in each of two typical manufacturing subdivisions, Transportation Equipment and Paper, Printing and Publishing. This is estimated to yield an
additional 3,800 direct jobs, 1,500 indirect jobs via induced domestic spending, an improvement in the Federal Government’s budgetary position of $120 million and a reduction of net imports and hence improvement in the trade balance of $170 million (Green, Mitchell and Watts 1992).

Conclusion

The 1993 Federal election has potentially signalled a turning point in Australian economic debate in much the same way that the US Presidential election did for American debate only a few months earlier. As the tide of deregulation and free market economics recedes around the world from its high water mark in the Thatcher-Reagan-Bush period, there is now greater scope for governments to think creatively about the broad range of policy options available to them. Already, the US and Japanese administrations have committed themselves to ambitious public sector infrastructure and job creation programs, just as the Keating Government set out to do in its One Nation statement and Budget package prior to the election, while Germany has for some time been underwriting the reconstruction of its eastern Lands in the context of the European Community’s regional development policy.

In addition, there is a growing recognition in Australia, as in most industrialised countries, that while public sector programs are a necessary weapon in the policy armoury, they must be accompanied by longer term supply-side measures which accept the need to abandon the discredited theory of comparative advantage and to focus instead upon competitive advantage through the promotion of innovative, strategically based manufacturing activities. It has been our argument here that the effective implementation of these measures at both State and Federal level will require a tripartite framework for industry policy, linked to the development of workplace bargaining and sector strategies, so that real and sustained progress may be made in tackling unemployment and regional decline.
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