DISCUSSION PAPERS

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Conference Discussion Relating to the Paper
AUSTRALIA'S INTERNATIONAL TRADE
Lawrence B. Krause
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The papers delivered to the Brookings Survey Conference were subsequently revised and have now been published in: The Australian Economy - A View From The North (Eds, Richard B. Caves and Lawrence B. Krause), published by The Brookings Institution, Washington DC, and George Allen and Unwin, Sydney 1984.

This paper contains the comments prepared by two discussants for the Conference Session on the Krause paper, together with the edited proceedings. The comments and discussion refer to the paper delivered at the Conference.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>First Discussant: Professor Peter Lloyd</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Discussant: Professor Wolfgang Kasper</td>
<td>14</td>
</tr>
<tr>
<td>Discussion from the Floor</td>
<td>24</td>
</tr>
<tr>
<td>Reply by the Author: Professor Larry Krause</td>
<td>24</td>
</tr>
<tr>
<td>Professor W.M. Corden</td>
<td>27</td>
</tr>
<tr>
<td>Mr John Macleod</td>
<td>31</td>
</tr>
<tr>
<td>Dr Neville Norman</td>
<td>34</td>
</tr>
<tr>
<td>Professor Helen Hughes</td>
<td>37</td>
</tr>
<tr>
<td>Professor Michael Porter</td>
<td>41</td>
</tr>
<tr>
<td>Dr David Morgan</td>
<td>43</td>
</tr>
<tr>
<td>Professor Peter Lloyd</td>
<td>45</td>
</tr>
<tr>
<td>Professor John Neville</td>
<td>46</td>
</tr>
<tr>
<td>Professor Rudi Dornbusch</td>
<td>47</td>
</tr>
<tr>
<td>Professor Larry Krause</td>
<td>48</td>
</tr>
</tbody>
</table>
This paper by Larry Krause considers most of the main issues relating to interventions by the Commonwealth Government which directly affect the international trade sector of the economy. I certainly agree with the main thesis of the paper. This thesis is that Australian households have paid a high price for the policies of "import substitution" and industry protection pursued by successive governments. The price has been paid in the form of both reduced real household income and in higher risks in missing out on possibilities for adjusting to changes in the world economy. As a bonus, the paper contains some original and valuable analyses of the composition of Australian commodity trade and presents the interesting view that Australia's comparative advantage lies increasingly in the "middle" technology products. However, there are some details which I do not accept without qualifications and some omissions which I would like to comment upon.

Let me begin where Krause begins. This is with the observation that the value of Australia's export and import trade relative to GDP has actually declined during the postwar period, in sharp contrast to the trend in other industrialised countries where it has substantially increased. Indeed the discussion of these trends and related trends in individual country partners takes up more than one half of the paper. Now
This is a startling and most significant fact. Krause refers to Australian studies which have examined these trends and offers his own judgement. In his view four hypotheses are relevant. In order of appearance, these hypotheses are:

1. The commodity composition of our export trade, that is, the specialisation in the early part of the period in wool, meat, and grains for which world trade grew much more slowly than average international trade.

2. The Kuznets hypothesis, namely that foreign trade proportions fall in "young" industrialising countries while the tertiary sector increases its share of final demand.

3. Import substitution policies adopted by governments.

4. Appreciation of the real exchange rate.

The only conclusion he states about the relative importance of these competing hypotheses is that "other factors must have been more important" (p.32) than the changes in the real exchange rate, and that the strategy of promoting manufacturing through import substitution policies was "probably the most important explanation" (p.19). In my view, two of these four factors can be dismissed, namely the appreciation of the real exchange rate and the Kuznets hypothesis. The other two must be modified.
While Krause himself attaches little importance to the real exchange rate factor, it should nevertheless be carefully considered. That is because it bears on the important subject of exchange rate policy which, unfortunately, he does not consider in its own right. Krause refers to the "cycle" in the nominal and real exchange rate. Since the Budget Statement of August 1992 the Treasury has been calculating a number of series of the competitiveness of domestically produced goods. (For the latest calculations, see Treasury, 1993a, pp.45-48 and 1988b, pp.29-32). Alternatively, these indices may be viewed as real exchange rates in the sense of a weighted average exchange rate index adjusted by the ratio of an index of the average increase in costs or prices in our trading partners to an index of costs or prices in Australia. (Of the various indices, I prefer that based on unit wage costs to that based on the CPI because one wishes here to isolate the role of exchange rate factors from tariffs, quotas, export subsidies and other trade taxes and commodity taxes which affect consumer prices but not producer prices. Ideally one should include non-wage labour costs as well as non-labour costs to producers.) The Treasury series show that the real exchange rate depreciated steadily from the September quarter of 1974 to the December quarter of 1979 (or the September quarter of 1980 if one uses the CPI series). This is a fairly long period of 5-6 years but it starts with the period of the historic high in the series, that is, the historic low in competitiveness following the appreciations of the Australian dollar in 1973 and 1974. If one takes a longer period, this index is
trendless (see, for example, Treasury, 1983a, Chart 14 for the period from June 1970 to June 1983). The longer term nominal Australian exchange rate adjusts fairly closely to maintain the purchasing power parity vis-a-vis our trading partners. In other words, the real exchange rate is constant and consequently cannot explain the long-term trends in the trade ratio. But what is also evident from this series is that the foreign exchange market regime of pegging the Australian dollar to the US dollar until 1974 and the subsequent system of pegging the trade-weighted rate has caused sharp short-term variations in the real exchange rate. For example, this occurred in the 1973 appreciation when it rose suddenly and from the third quarter of 1981 to the March quarter of 1983 when the exchange rate was continually devalued. These caused major changes in the real exchange rate. Thus the pegged exchange rate regimes in Australia exhibited the classic problem of pegged exchange rate regimes in alternating periods of stability of the nominal rate with periods of large discrete change in nominal and real rates. This in turn is a major source of uncertainty in international commodity trade which inhibits trade by risk-averse traders. One of the major benefits of the adoption of the exchange rate regime adopted by Australia in December 1983 is the avoidance of these large discrete changes - unless speculative flows are destabilizing, which seems unlikely to me.

The Kuznets hypothesis can scarcely explain the difference between the trend in trade ratios in Australia and other industrial countries since the Australian experience with
respect to growth rates of aggregate output and the tertiary sector was similar to that of these countries.

The commodity composition effect was important. One can note that it was exacerbated by the effects of the Common Agricultural Policy of the EEC in grains and by the UK accession to the EEC in 1973. This closed off substantial markets for dried vine fruits, dairy products and other agricultural products.

This leaves the import substitution policies. They are important because of their implications for costs or benefits of government trade policies. Here we must look carefully at the trends. First, one should note that the apparent downward trend in the trade ratios is entirely due to the high ratios of the period 1949/50-1953/54. Now, this period coincides with the period of the Korean War boom. This boom, unlike the other surges in primary product prices led by the oil hikes of 1973-74 and 1978-79, did improve the Australian commodity terms of trade greatly. This downward trend is, therefore, basically the result of these price effects. What really has to be explained, in my opinion, is why the trade ratios remained virtually stationary for the twenty years from the mid-1950s to the mid-1970s, when they greatly expanded for the world as a whole.

Next I would observe that to explain trade ratios one must look simultaneously at both the export and the import sides. Any commercial policy or other event which restricts export trade must also restrict import trade. Conversely, other
things being equal, when the economy adjusts it maintains about the same current account deficit (as in Australia).

First, there is no doubt that Australia has adopted a trade policy which has been more protective since the mid-1950s (by which time most of the liberalisation of quantitative restrictions and exchange rate controls had been achieved in Europe) than all other OECD countries except New Zealand. But there is also no doubt that the Australian trend has been favourable. This has been due very largely to two events. The first event was the end of comprehensive import licensing in 1959 and 1960 which had previously protected most competing imports since the end of World War II. Krause does not mention this event. The second event was the 25 percent across-the-board reduction in tariffs in 1973. This alone accounts for almost all of the reduction in average effective rates of assistance to manufacturing industries from 1968-69 to 1981-82 in Krause, Table 6. To these events one should add two additional factors. First, the export liberalisation due to the ending of the embargoes on the export of iron ore and other minerals in the early seventies, and secondly the introduction of the payroll tax rebate for increased exports and the export market development allowance in 1961. Subsequent increases in the export subsidies were substantial, though once again we lack a time series for them. Thus both export and import policies in Australia encouraged more trade. And one should include the effect of the discovery of very large deposits of iron ore, uranium, nickel and other minerals.
If we are to explain the peculiarity of Australian experience we must look at the Australian trends relative to those of other countries. Unfortunately, very few other industrial countries have series of effective rates of assistance for the manufacturing sector, even from 1960-69 to the present, which is the period for which a comparable series is available in Australia. Yet, given our token tariff reductions in the GATT rounds, especially the Kennedy and Tokyo Rounds, we can be confident that the degree of trade liberalisation in Australia was less than in most industrial countries.

Given these facts, I still find it remarkable that Australian trade ratios remained virtually constant over the twenty years from the mid-1950s to the mid-1970s. This was the era of rapid and continuous expansion in world trade. This expansion was based on a growing interchange of manufactures among the industrial countries. We as a nation failed to participate in this expansion, despite somewhat more open trade policies. My own judgement is that this trendless ratio was due partly to increased barriers to agricultural exports imposed by other countries, but due also partly to the commodity composition of our trade; our failure to develop large-scale exports in higher technology more-capital-intensive manufactures and our new specialisation in coal, iron ore and alumina and bauxite which grew less rapidly than world trade in manufactures.
One conclusion we can draw from this is that we should certainly reduce protection (steadily rather than in one jump) for the industries much of whose output is not competitive internationally.

Now I come to foreign investment policy. Successive Australian governments have continued a basically "open door" policy towards foreign investments. This has occurred despite both the guidelines introduced by the Whitlam government in 1973 and the operation of the formal review process since the establishment of the Foreign Investment Review Board in 1976. The notable exceptions of the banking industry and the uranium industry which need not detain us here. I do not see how Krause reached his conclusion that "Foreign Direct Investment (FDI) has made a significant contribution to Australia's economic development". The fact is we do not know what the contribution has been. Foreign investment policies and flows are a very understudied area in Australia. Even less work has been done in recent years on this topic than in the 1960s (notably Brash, 1966). Recent international economic theory suggests the possibility of foreign investment in import-competing industries being immiserising in the presence of tariffs or other distortions of producer prices. (See Brecher and Diaz-Alejandro, 1977, and Srinivasan, 1983). More important probably, this theory suggests that these flows may still bring a positive net benefit to the host country but the distortions reduce these benefits by distorting the choice of industry receiving foreign investment. This aspect of foreign investment is more important in my opinion than excessive
profit rates and transfer pricing. One can note that GMH, Ford, ICI, Fibremakers and many other major foreign-owned companies have been among the main advocates of higher rates of protection. (Consult submissions by companies to the Industries Assistance Commission (IAC)/Tariff Board (TB) reference which are listed in IAC/TB reports on import competing commodities.) In a careful analysis of the costs and benefits of foreign investment in mining projects, Emerson (1984) indicates that the net social benefits may be significantly less than the returns to the private investor because of the tax treatment, underpricing of energy inputs and the choice of discount rates. The differences between private and social rates of return invalidate the use of comparisons between the rates of return received by foreign private investors and domestic private investors, such as the study quoted by Krause (p.41). This theory also suggests that the net benefits are likely to be highly variable among different projects.

The FIRB does not conduct cost-benefit analyses of the proposals it examines and approves or rejects. This is one reason why the average processing time by FIRB of the proposals is only 30 days, which Krause notes is approved by foreign observers! In the absence of cost-benefit analyses of major projects the benefits to Australian residents cannot be reliably judged. There is a presumption that foreign investors have transferred technology, know-how and market access. However the benefits are reduced if the choice of project is seriously distorted by other industrial policies. One
The implication is that the reduction in the dispersion of rates of industry assistance which Krause calls for, and which I heartily endorse, would yield an added benefit in increasing the social rate of return to Australian residents of foreign investments.

Krause advocates wider publicity of the data provided by the IAC. I do too. But surely Australian experience on this score must make economists pessimistic about the benefits of greater publicity. In this country such information and many series are produced regularly by the public sector itself. These, however, have not produced much of an outcry against higher rates for industries that already receive very high rates of assistance. In this regard, I might suggest that the economics profession has concentrated unduly on the costs to consumers and the nation in reduced real incomes. Most increases in protection in clothing/textile/footwear, automobile and steel industries have been intended to protect jobs. We need to give more publicity to the failure of industry assistance to protect our levels of employment in these industries (see Lloyd 1984) - a matter to which Krause referred elsewhere.

But we need to do much more than reduce industry assistance and apply restrictions to foreign investment with greater finesse. Apart from protective policies, Australian governments have not developed explicit and coherent industrial policies. We need to adopt measures which improve the quality of our labor force, transmit new technologies both from abroad
and from within Australia from technology leaders to technology laggards, move the labour force much more readily among industries and locations and promote structural changes in other ways which I cannot spell out here. And we need to develop labour market and capital market policies which remove impediments to resource movements.

Another conclusion I would draw is that we must reduce government-induced uncertainties which discourage international trade and investment. I believe these are likely to be greater in Australia than in most other industrial countries. I have already referred to exchange rate policies above, though these may improve. The rates of assistance to an industry relative to the rates in other industries between which resources are mobile - that is the structure of assistance among these industries - is very uncertain in Australia. No other industrial country, aside from New Zealand, tinkers with tariffs, quotas and other instruments of assistance as frequently as does the Australian government. One need consider almost any import-competing industry: for example, the automotive assembly industry. Since 1970 there have been about six major enquiries into this industry by the Industries Assistance Commission and its predecessor the Tariff Board. Company tax rates, depreciation rates, takeover regulations, foreign investment regulations are also changed every few years in major respects. One should also note the growing and direct intervention by State governments on behalf of beleaguered industries (see IAC, 1981, pp.37-44).
These are the main elements of the policies I would like to see in Australia - less defensive protection, greater certainty, more careful selection of technology promotion and structural adjustment policies. We need, in my view, a different framework for policy making. This framework would concentrate on generating growth and growth areas of the economy and associated factor supply development rather than responding to the protesting firm which has discovered it is non-competitive on world markets. This will call for a different style of intervention and one which promotes structural change and national growth.
REFERENCES


2. SECOND DISCUSSANT: Professor Wolfgang Kesper, University of New South Wales:

I agree with the basic tenor of Larry Krause's paper, which makes this task easier for me, but will possibly make this discussion less interesting for those here. I am in especial agreement with the conclusion, that this country faces a choice between an outward and an inward orientation. Indeed, this is in my opinion the most crucial economic policy choice we face. It will determine whether we can make the supply curve more elastic and responsive to policy. Hence the choice will influence our macroeconomic performance, our future economic growth, the size of the manufacturing sector, what jobs our children have and indeed in what sort of a social atmosphere Australians will be living domestically and internationally.

Whilst I agree with this, I should like to suggest three shifts in emphasis in the paper:

Firstly, one has to be less optimistic that trade liberalization will happen in Australia simply because a few academics offer a logical argument in favour of it. Protectionist interests are too deeply entrenched, Mercantilist philosophies are too widely shared and this is too lucky a country to easily risk such a major reform. When we talk about international trade, we have to realize that reforms face obstacles that did not exist in the financial sector. Financial deregulation is happening because the banks wanted it to happen. But most manufacturers and industrial unions do not
want deregulation and will prevent it.

What foreign visitors cannot grasp quickly is the extent to which nationalist protection, socialist redistribution and interference with the market are embedded in the body politic of this country (the average citizen or voter is not part of the elite which know of the IAC or read the Australian Financial Review. Also, we take little notice of the bitter lessons elsewhere. Contrary to what Larry Krause expected, no one took much note when the real per capita income of Japan exceeded that of Australia. Under the Labor Government, new institutions are being set up to cement Mercantilism. From the Summit down, we are setting up industry councils that strengthen the inward-looking corporate state. And every new council (as in Mussolini's Italy or post-war France) creates harmonious agreement - at the expense of outsiders. Typically, the steel industry agreement between a monopolist producer, high cost unions and the umbrella-holding government placed all the costs on outsiders:

1. Foreigners suffer from the exclusion from 80 per cent of the domestic market by quota;

2. Taxpayers have to bear the cost of open and hidden subsidies to the supplier grouping;

3. Steel users have to bear higher steel costs and cope with lesser availability after 'rationalization'.
4. The young generation incurs a durable loss of the many job opportunities in the present and potential future steel-using industries.

Similar accords seem to be on the way in many other industries. I only wonder what the protection of the Australian home computer industry will do to market growth, costs and innovation, if the Departments of Science, Trade and Industry obtain infant-industry status for that industry.

Secondly, I have grave reservations about the high speed of a tariff reduction that Krause recommends. We learnt from the Whitlam experiment with a surprise 25 per cent tariff cut (which was adopted primarily as an instrument of demand management and only secondarily as an instrument for structural reform of supply) that this dislodges production and employment and is seen to be disruptive. We ended up with lots of quotas and possibly a lesser degree of workable international competition than before. Economic theory tells us that tariff changes affect relative prices and profitabilities, and hence supply structures—and, on the supply side, nature doesn’t make bounds.

I therefore plead for gradualism and pre-announcement to contain the inevitable adjustment costs of the removal of an 80 year old tariff. All successful tariff reforms (OEEC, EEC, certain NICs) have been gradual. I would favour a pre-announcement of two years, followed by a fixed five year schedule of complete linear elimination of all trade obstacles.
across the board. Such a policy should be bound under GATT and
in other international agreements, e.g. with ASEAN, so as to
protect it from domestic political pressures. It should be
safeguarded against balance-of-payments pressures by
international stand-by credits, by a freeing-up of foreign
investment policy and by exchange-rate flexibility. I would be
confident that the $A would appreciate after the announcement
of such a package, because new profit and export opportunities
would attract capital and enterprise into the creation of
Australian jobs, especially in manufacturing.

A third major point relates to the fact that the core of
Australia's industrial malaise lies neatly between where
Krause's paper ends and Caves' paper begins; I am afraid that
the present division of labour between these two authors
deflects the focus of the Brookings study from both the
importance of effective oligopolistic competition for
structural change and growth (controlling costs and promoting
innovation) and from the importance of outsiders contesting
oligopolistic markets in producing socially desirable results.
Outsider competition in Australia means international
competition. Where this is suppressed by trade interventions,
we get a wile nexus which generates low productivity, high wage
rates, x-inefficiency of management and labour, artificial
diversification of production on mini-scales of output. It
also holds up innovation, not necessarily product innovation so
much as process innovation, because many high-speed,
large-output technologies just cannot be profitably operated in
the small Australian market Australia whatever the effective
rate of tariff protection. A typical case is the Australian car industry.

Also, industrial reality in this country is that you frequently cannot get material inputs at all or only after long delays, so that you have to use second best components. This makes Australian products internationally unacceptable (a bit like East-Bloc wares; it also bloats costs). Our American guests should visit an Australian hardware store and check prices and product range.

All this explains why Australian productivity levels in industry after industry are 20 to 40 per cent below productivities in the US or Germany (see H. Kasper-A.M. Massih, "Apparent Productivities in Australian Industries: A Note on International Comparison", Australian Bulletin of Labour, December 1979). I would stress that the long-term dynamic costs of protection in terms of productivity growth and the comparative static textbook models of protection have little to say about old tariffs, i.e. a tariff whose margin has been appropriated by the unions.

For all these reasons, I should be very sorry if insufficient integration between the Krause and Caves papers were to let the key problem of industrial and economic malaise in Australia fall between two chairs!

Apart from these major points, I have a number of lesser niggles, most of which I will communicate privately, but I will use the rest of my time on some of them:
1. I would stress more the great export opportunities of medium-technology industries, especially those that make intensive use of capital, medium skills, are metal-intensive and easy to service. The tariff is not only an export tax on farmers and miners, but also a prohibitive tax on many manufacturers.

2. I endorse Peter Lloyd's statement that tariffs and quotas no longer protect jobs in the protected industries, because tariff margins are eaten up by high wages and low productivity. Many tariff protagonists have not woken up to the lesson that, in the two years since new tariffs and quotas were put on textiles garments and footwear in August 1980 to preserve jobs, these industries shed 19,300 jobs.

3. I am also a bit unhappy that Krause's method omits capital intensity because this is where many of our specialization opportunities with East Asian NICs lie. In Graphs 1 and 2 I offer my own estimates of factor intensities for Australian industries.

4. On pp.18-19 Krause should say that Australia has been inward looking since 1900, an attitude that was reinforced in the 1930s. By the 1950s, Australia was an 'old' industrial country that tried, by trade interventionism, to preserve the artificial wartime diversity of industries - never mind the loss in efficiency and growth. This explains the trade decline, not the Kuznets story.

5. I would also highlight the strange Australian notion of tariff making on a "needs basis". Protectionism has been
increasingly used to preserve jobs with high unit-costs (see Graph 1). Protection is primarily seen as an instrument to promote social equity, i.e. equality of outcome irrespective of effort. The link between interventions in productive allocation and efficiency is often conveniently overlooked.

6. I find the role of New Zealand and CER exaggerated in the paper. If anything, I rather fear that CER will hinder future general trade liberalization in Australia.

7. I would stress more the internal barriers to trade (state protection) in wasting scale economies.

8. While I welcome the discussion of foreign investment policies, I believe that Larry Krause simply reflects FIRE propaganda. In reality, foreign investors have to undertake long unofficial negotiations and many rejections are made unofficially, i.e. before a formal application is accepted by FIRE. I agree with Peter Lloyd in criticising the secretiveness of horse-trading and political ad hocery of the investment review. This raises costs to potential investors or pushes them quickly away from Australian shores. In my own research, I found the business community very critical of FIRE, especially since it hardened up in 1983 and since the politicians and bureaucrats have begun to make more concessions to anti-capitalist and anti-foreign sentiments in certain sections of the Labor Party.¹

¹ W. Kasper, Capital Xenophobia - Australia's Controls of Foreign Investment, (Sydney: Centre for Independent Studies, 1984).
Finally, I should like to invite everyone to join me in a New Year's resolution for the Orwellian year of 1984: not to use the term "industry assistance" for tariffs and quotas! We have solid economic theories and ample empirical evidence to show that such "assistance" only cripples an industry's potential for growth and job creation and—most importantly—contributes to social unhappiness as in Argentina, New Zealand or amongst European farmers.
GRAPH 1

FACTOR INTENSITIES AND TARIFF PROTECTION

EFFECTIVE RATE OF TARIFF PROTECTION, 1973-74

SA Log

16000
14000
12000
10000
9000
8000
6000
5000
4000
3000
2000
1500

PHYSICAL CAPITAL PER EMPLOYEE

INDUSTRY AVERAGE

BASIC METALS

PAINTS, DRUGS

FOOD, BEVERAGE

PLASTIC MOLDING

INDUSTRY AVERAGE

WOOD, PROD. HOUSEHOLD

TEXTILES, APP.

PREC. INSTR., SPORTS, MACH.

FURNITURE

CLOTHING

SHIPS, AIRCRAFT

HUMAN CAPITAL PER EMPLOYEE

3000
4000
5000
6000
7000
8000
9000
A$Log

GRAPH 2

IMPORT PENETRATION

Imports as % of gross national expenditure relative to population, 1980:

- Imports as % of gross national expenditure
- Population in millions

Legend:
- US (at 216 mill.)
- Germany
- UK
- France
- Canada
- Netherlands
- Australia
- Sweden
- Austria
- Switzerland
- Norway
- New Zealand
- Ireland

Regression line

a. A regression line has been calculated on the basis of the data from all OECD countries. A country with an import share in GNE of 3% could be expected to have an import share of 1.4% in 1980.

REPLY BY THE AUTHOR

Professor Krause:

Let me first indicate the area that was carved out for this paper. I should admit that I was one of the carvers, so it wasn't thrust upon me. Exchange rates naturally became part of the macro chapter; minerals, as one of Australia's biggest exports, became part of the natural resource chapter. Dick Caves, as you will discover, has the problem in his domain of the small scale of industry. Since protection in industry causes diversification, it brings on the problem of small scale; in other words protection and small scale are inseparable. I lost some domain there, so what I have done is try to carve out something from the rest and I appreciate a great deal of Peter Lloyd's and Wolfang Kasper's additions. I will absorb so much of them that readers of the chapter will wonder what ever was in this paper, because I will use their contributions recklessly. However, let me go on to some quibbles I have with them.

Why is Australia protectionist now? No one can believe, I think, that there is an economic efficiency argument related to infant industries. If that were the case, it is long past. Besides the capital market efficiency argument here would really deny it exists at all. Nor can you believe that there is confusion in Australia, that the tariff helps us and the foreigner does the paying. That is, if it hurts anybody it hurts some other country. The work of the IAC, I think, must destroy that myth. Nor can you really believe that it is only
small pressure groups - the business interest that knows that it benefits - or particular labour unions, because the poll I referred to suggests the general public finds it desirable. Nor can you really believe that people think it protects jobs, given the IAC's results that jobs are lost faster in the highest protected areas of manufacturing, though one must admit that the IAC findings may not be well-known - particularly in their detail. Then my charge to Australian economists should be even stronger: that you have not done your job in educating the public as to the reality.

But it does take me to the question - on which both of my critics disagreed with me - on how you should change it. Since I stand out against the tenets of welfare economics in the main on this issue, because I am for drastic change rather than slow change, I would like to explore that a bit. There are two paths of drastic change. One is to do it quickly, at a point in time without any announcement. That I am not for. I am for an announcement. But when that date comes, I want to do it immediately and completely. The problem with gradual adjustment is that it requires a forecast of the adjustment costs. If those forecasts turn out to be too low, then you have missed the opportunity. From what we know, for instance, of the coal markets in Europe's original reduction of tariff rates, it turns out that in their experience it was much less painful than they had expected. Now, what concerns me a great deal is the three year electoral cycle. Since you cannot promise to be in office three years hence the process just beginning could be reversed. It is true that the literature
argues (and what I have been told a lot of people think) is that the 25 percent tariff cut of 1973 was a terrible thing. Many blamed it for causing much of the distress, when in fact the distress was due to something else. That is the judgement of the literature that you summarized. Well I just don’t think we can pander to misjudgement. It is again a charge against the Australian profession — that maybe the way to raise the issue is to explore that issue once again in public — that it wasn’t the 25 percent tariff cut that caused the problem. I think the conditions are even better now for a drastic cut. You now have exchange rate flexibility so that you won’t be quite so dependent on Treasury ministers making either good or bad decisions as to where the exchange rate ought to go. You will have a better chance of an adjustment that can be done through the exchange rate in the market. Secondly, I think you are at the bottom of a business cycle and therefore a realignment of resources is more easily done. So I am not convinced that my drastic change proposal should in fact be modified. I think if anything, it should be pushed a bit further.

Now the final issue is this one of foreign direct investment. On that issue my two discussants disagree. Personally, I have more disagreement with Peter Lloyd. I doubt that you can do cost-benefit analysis adequately to be able to make judgements, particularly since the judgements being made in State projects are often — I am told — mistaken. Also, if it takes as long to make those judgements and then you come out badly, I think Australia will be ill-served. There is an
argument that I did not make, that I will make in the revision of the paper. When you do have a high protective structure, that in itself attracts foreign investment. This could even lead to smaller scale than necessary within the market. Then having a participation requirement forces a market test within the society. If you can't raise the local capital for it, it may not be good enough. It doesn't say that you make an abstract judgement to stop it, but participation requirements under these circumstances may be a kind of market test that is worthwhile going through. I will in fact amend the paper to take that into account.

PROFESSOR MAX CORDEN, ANU:

Obviously this is not the moment to comment on the commentators - they certainly invited a lot of comments. Just two points I felt I must make because I wouldn't like some of the commentators' suggestions to get into the book. First of all, the idea that the Foreign Investment Review Board should do detailed cost benefit analyses frankly fills me with horror. I think we should let all foreign investment in without question, subject to them fulfilling the laws of the country, including environmental controls and so on - possibly subject to the qualification that if the industry concerned has more than 50 percent effective protection, we don't let it in. Otherwise let it all in. Leave it to the private market to decide to do its own cost benefit analysis. That is just one point and it is essentially what Larry Krause was hinting at.
Secondly, seeing I have had a go at my old friend Peter Lloyd, let me criticise Wolfgang Kasper. The fact that a protected industry has incurred a loss of employment in spite of protection simply means - in my view anyway - that the protection is essentially leaning against the wind. The protected industry has been allowed to decline in spite of protection. If we had actually removed protection, no doubt it would have declined faster. In principle, we could have increased protection even more and preserved all the jobs. So it is neither an argument for or against protection. It is just an interesting empirical observation of what has actually happened. I am delighted to see that the protection hasn’t actually been so great as to preserve employment in the clothing, textile and footwear industries.

Just to make some very general points, I think the general message has got through to Larry Krause already that there is a feeling amongst some of us that this whole subject of protection has got a little lost in the Caves-Krause papers. It is so important to this country and it raises so many passions and excitements, and has dominated our discussion for so long, you have to have a little more about it, even if you can’t do it in full detail, because we have already written so much on the subject locally.

But let me make a few remarks on the central issue: the sort of questions ideally one would like to see answered, or at least dealt with. First of all, has actual protection changed overall and how has its pattern changed? This is dealt with in
bits and pieces in the course of the paper. How can the pattern be explained - which changes happened and when? As everybody has noted, the biggest single change was the 1973 tariff cut. It just happened, unfortunately, that a year later we had a big recession, and so a lot of politicians blamed the tariff cut for the consequences of the recession. You mention the European Community experience. It happened that they introduced their tariff cuts at the period when Europe had a recession, but it is a very difficult task. Quite frankly I don't believe for one moment that the present Labor Government is going to do the same thing that was done under the previous government, however right we think it was. Possibly the next Liberal Government might do it, who knows.

Now on to some of the other central questions. Has the importance of protection declined? I think the general feeling is that the subject has been a bit overdone in Australia, and is not as important as it used to be. Is this because the protected industries are relatively less important than they used to be, by various measures, or because the rate of protection has fallen? Also, what are the costs of protection? Wolfgang Kasper made some statements on this. There has been a long discussion in Australia about the nature of these costs - are they really large or small? I think some more should be said on this.
Then there is the question of attitudes. Various people have remarked that the Australian community still appears to be very protectionist. I must say there has been a remarkable shift of opinion. When we think back to the 1950s and 1960s I am sure one would not have found that 46 percent of white collar workers were in favour of no protection for Australian manufacturing industry— I am taking this figure from the paper. That is an incredibly high free trade figure, not to mention the 62 percent of university educated people who favoured this position. I would have thought in the 1950s and 1960s it would have been less than 5 percent in favour of that sort of policy. In my view there has actually been a very remarkable shift of opinion in Australia whereby a large part of the educated community, including the politicians, a lot of business people and others are more or less saying: yes, reducing protection is desirable but don’t do it just yet. That is a big step forward. One reason why I suspect this subject got by-passed in your planning is that a lot of people now feel the subject is boring; there are no more debates, as we all now apparently believe in free trade. Instead we get excited about such questions as real wages. But it is worth noting that it wasn’t always so. Within the living memory of some of us, things have changed quite remarkably.

A related issue for most people here is that there is no argument for protection left, other than the short-term adjustment problems, the short-term employment problems and so on. The only problem left is to persuade the general community that reducing protection is good for Australia and that
adjustment effects can be dealt with. This whole question of arguments for protection did absorb a lot of Australian discussion and debate. Now that we have got protection, what we are left with is simply the 'existence principle'. We are preserving whatever exists partly because of the interest groups, and partly because the Australian community still feels that it wouldn't be a good idea to create a lot of unemployment in the motor car industry. They feel a sense of responsibility to their fellow citizens, even though they realize that they themselves would be beneficiaries from the cut in protection.

Something should also be said on the strategy of protection reduction. There are two issues: one, do you reduce protection suddenly, or do you do it gradually, and two, what should be the pattern of protection reduction? One can either cut from the top downwards thereby introducing more uniformity into the system; this has been an Australian policy in this whole philosophy of having a more uniform tariff. Alternatively, one could have general across the board cuts, which is logically a slightly different policy. I think all this would be worth pursuing, but of course we are not urging you to write a whole new extra chapter!

JOHN MACLEOD, CRA:

I think we have got in this paper the crux of the problem as to why Australia did so badly. Given that it had almost everything going for it, why did it perform the way it did? Perhaps you could say that in the 1950s and 60s rural protection policies in Europe - and dare I say it, the world's
largest rural exporter is not blameless in its protection policy for the rural sector - may have constrained Australia's opportunities in external trade. But then you come to the 1970s and the energy era, when Australia was well-served. Its import bill was saved by a lucky oil find, and at the same time we had started to diversify our mineral trade. I think if you look at it, you have got to say there is something over and above what is in this paper that explains our poor performance. I like to think of it as a non-economic factor, a cultural factor. I like to think it is a hangover from Europe; Australians clearly wish they were part of Europe. Of course we were originally a farm or a quarry that supplied Europe. Nearly all of us are descendents of parents who came from Europe, there are a few Vietnamese here and they are subject to abuse now, but basically we all come from Europe. European protectionist attitudes have also migrated to Australia in a marked way, as have a lot of other attitudes. For example, bigness is not liked in Australia. Profits are a dirty word. I haven't noticed anywhere in the Brookings papers the word 'profit', or large profits, or adequate profits. They are simply not liked in this country. If you are going to have a system like that you cannot opt for the sort of things Wolfgang Kasper is looking for - R & D intensive industries - if you have not got the companies that are able to fund this type of spending.

Marketing, and in particular international marketing, is a rather unfashionable profession in Australia. We have a sort of dependent mentality. Transport is another area which
reflects the attitudes of Australians. Qantas is a classic example of Australia protecting itself from the real world. Airfares between Australia and Asia are unbelievably high, and we are being cut off from where our potential ought to be. We are deliberately shutting our eyes to the potential. I am a little surprised that the author of this paper, who, the last time I heard him in Australia, was talking about Asia, did not make more of it in the paper. It became apparent in the 1970s and certainly, in the 1980s is now the perceived wisdom, that this is where the real opportunities for Australia lie. The tyranny of distance is removed. What in my opinion is holding us up is a cultural barrier - we don't like them. We wish we were somewhere else.

Just let me hark back to the New Zealand saga, I think that is typical of Australia's hangover with Europe. Here we spend our time fiddling around with NAFTA and CER and so on, occupying the bureaucrats in Canberra to their joy and delight, when we are really headed in the wrong direction. As the commentators have said, we are likely to constrain our options in the future rather than opening them up.

Finally, I would like to say a few words in favour of foreign investment, especially since everybody else seems to be against it. I am disappointed that Brookings didn't make more of this. Their paper on Canada, in particular, did emphasise that the problems of the foreign investment issue there are still very much alive. In Australia, I want to put it to you, it is a much more defused issue. The authors have not
mentioned the unique "Australianising" process in Australia, which has produced for Australia some companies which are large by international standards. We have never had these before. These are companies, hopefully, which can push their way around in world markets, rather than be pushed around. Big enough to sustain long term trading policies, big enough, hopefully to have R & D expenditures which will carry them to the forefront of world technology. You can already see it in things like ceramics, and mining and exploration technology, where Australia leads the world, and Australian companies are large by world standards. This is something missing from the paper and I think we ought to be given a few Brownie points for the foreign investment policy we have developed.

DR NEVILLE NORMAN, University of Melbourne:

I want to address two areas. I think the relevant topic at the moment is the mechanism for reductions in protection, rather than the case for such reductions. There is really nothing that you could say on this subject to persuade Australian economists who are already committed to reductions. Where support and stimulus is needed is in the mechanism for effecting the reduction. I think it is wholly constructive that Larry Krause should support the case for a non-surprise though substantial adjustment - if only to focus debate on that matter, as at present to an Australian economist that is a radical view. I do regret, however, that he didn’t give very many arguments for it. Some of the facts I think, of the 25 percent tariff cut and other matters are very relevant in
coming to a view on this. First of all there is no doubt that
the 25 percent tariff cut was taken at a very propitious time –
contrary to one remark Larry made. If you look at the time it
was taken, it was one of the strongest balance of payment
positions, and internal demand was so strong there was an order
bank up of three to six months in many companies. So on the
face of it, as seen in July 1973, it could hardly have been a
better time. As Max Corden indicates however, the forecast was
wrong. When the adjustment time came 12 months later, a very
sudden and unexpected recession had hit, compounded perhaps by
exchange rate up-valuation, and compounded even more by a surge
of wage costs and the downturn in the world economy. In short,
in the impact time it really faced a very bad reception, and
had all of the aura that went with it. Also, while the 25
percent tariff cut was blamed unjustifiably, it was
nevertheless used as a reason for a variety of specific quotas,
for specific tariff increases on individual cases and,
furthermore, for the devaluation of September 1974. In short
you cannot look at the 25 percent tariff cut in isolation from
the package of things that were done at that time. I would
submit that there would be a similar response if a drastic cut
were introduced again. It would be large enough to be
blameable in the eyes of the general public.

Let me now come to the question of timing. Even though I
think we would all favour Wolfgang Kasper’s proposal of waiting
two years and then announcing a staged reduction it would
undoubtedly lead to difficulties. For example, the steel
policy which he mentions contains a commitment by this
government while it is in power – and it looks as if it will be there for another four or five years – for a five-year non-changing programme. There is the textile clothing and footwear package that runs to 1988. So we already have these things built in. All that a staged reduction would do is intensify the policy uncertainties to which Peter Lloyd – correctly in my view – drew attention.

The next point concerns foreign investment. Here I differ from Peter Lloyd. I think it is wholly wrong to parade foreign investment policy in Australia as open-door. If one relies – as the politicians do – on the 9 percent of rejections as indicating it is an open-door policy, then I think that needs correction from those who are in the know and understand the process. Not only are there deals done beforehand but there are many submissions that are put and withdrawn, and are never officially rejected. Also there are many submissions that are never put because of the hostile attitude. Again there are many that are accepted only after enormous loads of local equity are dumped into the proposal. There is a very restrictionist foreign investment policy in Australia that is not deducible from the figures. It should be exposed with the full force that protection policies have been exposed.

I would further add that contrary to Wolfgang Kasper’s comment on process technology, one of the most advanced processes is operating at Fisherman’s Bend. This is a result of the world car agreement. In Europe there are 250,000 cars driving around with engines in them produced with some of the
best technology in Australia, and it is one of the great advantages I think, of internationalizing this whole scene.

Finally, I would totally disagree with Peter Lloyd’s comment that foreign companies are predictably, or are in some substantial way, involved in the pro-protection debate. It is true that the companies he has mentioned stand behind this debate, but there is a greater number and greater force of Big multi-national companies, including IBM, CRA and MIM and the other mining companies, who stand very solidly in industry groups and in other forums towards free trade. I think the point is totally wrong. If there is a connection it may be the other way. Therefore I think the point is probably irrelevant.

PROFESSOR HELEN HUGHES, ANU:

I want to make three points. The first one is to ask the authors whether they think that Australia is a small open-economy as the Dornbusch/Fischer paper starts off by saying or whether it is a small closed economy, as the Krause and Caves papers indicate. I think that from around the table you have got a fair idea of where most Australians think it is. Having been exposed to Hollis Chenery’s influence for a long time, my view is: if all else fails look at the numbers. It seems to me that the table of exports in the Australian economy indicates that it is a very closed economy because the level of exports is about half of the level of exports in most developed countries of that size and of many developing countries.
The second point is on the paper itself. I was a little disappointed to see only the CMS type analysis of what has happened to the structure of Australian exports, because as Larry Krause points out in his paper, it is an unusually mechanistic analysis. I would also like to see more of the qualitative insights, that I know Larry Krause has, for example, into why Australia did so badly in mineral exports. Is it the unreliability of Australian supplies and hence much of the fault is with labour and its irresponsible attitudes to exports etc? Or, is it just poor management? John Macleod talked about marketing not being highly appreciated in Australia. Surely that is the fault of the companies. They don’t give rewards to people in marketing. We have an appalling history over our coal exports and how we mismanaged that, and yet there has been very little analysis and criticism of that sort of thing. I think it would be extremely helpful to get some insights into why it is that we haven’t done well in areas where one would have thought we had a real comparative advantage. We are being beaten out by countries which are even worse managed than our own.

My third and main point relates to the whole discussion of protection and manufacturing, which I find a bit odd in this day and age. In the rest of the world, people stopped being concerned some time ago about the flow of labour out of agriculture and became very concerned with de-industrialization. Now here we seem to be still talking about the importance of manufacturing industry, and in a paper devoted to comparative advantage in trade, there is no mention
of trade in services. Worldwide, services now account for about 25 percent of exports and in countries which are quick and well organized like Singapore and some of the smaller European countries, service exports have reached up to 33 percent or even higher percentages of total exports. Services seem to me to be the one area where Australia ought to do well. It is the one area where the tyranny of distance can really be overcome with modern communication. I mistrust the talk about high technology manufacturing industries in an essentially small country like Australia. But I think high technology really has a role, together with high skills, in fostering service exports from Australia - e.g. consulting services. And some Australian exporters are doing very well. In conjunction with selling mining machinery, they sell mining skills. Australian exporters are doing well in agricultural services, but they are not doing very well across the board, and I suspect there are not too many of them (although I don't know because there doesn't seem to be very much recent work in this area) that Australian service exports are growing very slowly.

That leads me to my final point: looking at services seems to me to illustrate the limitations of the traditional way of looking at the problems of protection in Australia. If some of the gloomy conclusions around the table are correct, we can't do much about protection. Employment in manufacturing is going to decline anyway, so we shouldn't have to worry about it too much. What we should be looking at is where we are going to employ the million or so unemployed we will have on our
hands – we already have about 700,000 – and how they can contribute to trade. To what extent can they be involved in trade – that seems to me to be the essential question. Why do we have relatively low productivity in tertiary services? Why aren’t our exports of services growing? This suggests that the form of protection on which most of the past analysis and discussion has focussed is not the only problem.

We have a lot of other protection. The level of regulation in Australia and the interference through various types of formal and informal regulation are probably as costly to the economy as normal border protection. Perhaps this needs to be analysed to explain why people in services are so extraordinarily unwilling to get into exports.

Let me conclude with one example. I have been involved with trying to persuade people that it is much better to export university education than to make shoes and socks in Australia. We should regard tertiary institutions as potential exporters of tertiary education. That is where we have a comparative advantage. There is a huge market out there. If we put ourselves out we can get enough of a slice of it to make that into a very valuable export industry. What one runs into is the most extraordinary conservatism and protectionist attitudes of university administrations and of those of our colleagues who have recently said that they really don’t want to increase the number of foreign students in Australia. There is certainly no response to the possibility that here is an opportunity to enable people to earn their living in the rather
lovely way of being university teachers rather than bureaucrats or textile workers. There is a deep and underlying problem on protectionism in Australia, but it has shifted. I think Max Corden is right, we no longer believe, and in particular a very low proportion of the educated population no longer believe that protection, that is border protection, does anything for the Australian economy. But I suspect, that because we have been doing it for a long time, the Australian community is wedded to regulation of all types. This is what is now preventing us from moving into services which are, I would suggest, at the margin where things matter.

PROFESSOR MICHAEL PORTER, Monash University:

First on the Foreign Investment Review Board, I would like to endorse Larry Krause and really take issue as others have, with Peter Lloyd. FIRB is just another form of protection. It is a form of protection of domestic management, and it is no accident who gets on the Board. Take a look at what the history has been. It is a way of providing businesses more cheaply to Australian managers than to the best managers who may not be Australian. While politically it might be silly to abolish the FIRB, it should certainly be castrated, or something similar.

Secondly, I would like to talk about the big bang approach to tariffs of Larry Krause. I think that is the way to go, because we live in a world in which expectations are based fairly rationally on judgements of what is in the cards, and clearly the shedding of labour in manufacturing over the last
decade has been dramatic. Lionel Bowen a few years ago said "What's the point of protecting, we are not going to invest on
the basis of those tariffs, they will go away". The real
action is already being observed, and so I don't think a major
move, a la the events of July 1973 would be as disruptive as
some believe. In fact I would agree with Larry Krause, that
the best time to cut tariffs is presumably when the economy
does have a lot of slack, with its capacity to readjust. So I
think it is an excellent time for a big bang approach.

I would agree with Helen Hughes that perhaps the real
issue is not in the tariff area, but in the overall regulation
area - the non-tariff barriers area. We are certainly doing a
bit of work there - why not kick-off and focus on education if
we are talking about skills being relevant to our future trade.
We have two or three new financial centres emerging, Darwin
will be the next. This is a sort of skill intensive industry.
But look at our education institutions, they are declining
faster than textiles. I have said for years that education
makes textiles look terrific, I stand by that as a factual
statement. Education is the most inefficient industry in this
country and it deserves to be investigated by the IAC.
Everything that Helen Hughes says strikes me as very much to
the point. As to whether the recent float has much relevance
to the ease of deregulation of trade, I am not sure - perhaps
deregulation of the financial system that has come along with
it is more important than the actual float.
It seems to me that there would be uncertainty in the market, and the fact that we floated just really puts attention where it belongs, namely on monetary policy. Whether we will take adjustment in the interest rate capital market or exchange market is going to be a very difficult question, and the Reserve Bank skills in this area will be tested as never before. The float as such was a major change. I would endorse an approach to trade which focusses less on tariffs and more on non-tariff regulatory matters, because I think Australia is one of the few remaining countries that sees tariffs as the major impediment to international trade. We are still pre-occupied with tariffs. All the other countries are much smarter. We ought not to fool ourselves that what we want is a repeat of July 1973, although that must be part of the package. We really need to think about the sorts of issues John MacLeod focussed on such as the Shipping Conference problems and the airline regulation problems. We will be subsidising our friends in the West who want to start a new national airline. These are the things which may put us into the picture in the world economy.

DR DAVID MORGAN, Treasury:

I did not think anyone could make Wolfgang Kasper look understated, but Neville Norman did it. Unless things have changed greatly in the last two and a half years, I think the charge they both made of the FIRE statistics being cooked is greatly overdone. There are a few situations where long unofficial negotiations take place, but they tend to be very
small in number, often involving larger and more complex cases. There are also some foreign investment proposals when potential investors come to the Board, or to the Secretariat, with proposals. Sometimes they are told that their proposals are plainly inconsistent with policy. It is then a matter for the investor whether he wants to proceed through the formal processes or not. You can call that cooking the books, or more prosaically you can call it bureaucrats doing their job.

On the other hand I would not support what Peter Lloyd wants to do in terms of more extensive cost-benefit analyses extending beyond 30 days. I think the main principle that should guide foreign investment policy is that alluded to by Peter Lloyd himself when he talked about the very large costs involved in the high degree of uncertainty created by government policies themselves, and the need for a greater certainty of government policy instruments. It is important there be stability in the foreign investment policy environment, and the most viable way of securing that is to have a bi-partisan approach to the issue. At the moment, I think we have that. We have a policy that is too interventionist for the right and not sufficiently interventionist for the left. But both can see the benefits of a bi-partisan approach. It has taken a decade to get there and I don’t think we should throw it away.
It is always exciting to stir up a hornet's nest, even if the hornets then choose you as the object of their fury. I reiterate: I think foreign investment policy is a very important issue which has not been studied sufficiently and we need to consider these issues. I should make it clear that my arguments for having cost-benefit analyses were conditional on there being substantial distortions at the border such as tariffs and quotas which distorted relative industry productivity. In the absence of those and in the first best world, I would certainly not want to add any bureaucratic or complex machinery to review proposals for foreign investments. So this is strictly a second best proposal which might be desirable in the presence of large border restrictions which distort the choice of industries.

The second thing I want to reiterate (so that I am neither misquoted, nor the exact content of my statement is distorted) is that I didn't restrict this to major projects and indicated that it could perhaps be done on a sample basis. I know it is a bureaucratic nightmare, and I can instinctively sympathize with Max Corden's horror at yet another piece of machinery of this type. However, I do think that in the presence of such large distortions as we have at the border, the confining of our review process of all foreign investment projects to a fairly cursory one, which does not evaluate many of the costs and benefits, and which seems to be pre-occupied with a level of domestic equity participation is a very inadequate one. I
would like to see others devote their attention to devising what might be the best set of screening procedures. I don't think the present ones we have are optimal but I also don't wish to impose a large and costly bureaucracy either.

PROFESSOR JOHN NEVILE, University of New South Wales:

First, I think someone should dispose of the red herring about whether the Australian economy is open or not. It is obviously open from a macro point of view with our capital markets integrated with the rest of the world and a very high marginal propensity to import. Also export fluctuations and prospects are very important for investment decisions. It is obviously closed from a micro level for the reasons given in Larry Krause's paper.

Secondly, I must defend my industry to some extent. The academics who argued for restrictions on foreign students (I wasn't one of them - I personally would not want to have restrictions on foreign students) were arguing in a situation where you have got more foreign students, but no more resources - it is a one for one trade off with an Australian student. I don't think any academics have been asked if they would be in favour of taking more foreign students if they and the Universities could charge fees and retain those fees.
PROFESSOR RUDI DORNBUSCH, MIT:

I would like to supplement what John Neville said on the openness of the economy. Australia is a wide open economy, more so than most others at the margin. Thus you have low average trade ratios, but at the margin, disturbances in the world economy have a very important impact on the local macro economy, and as much (if not more so) than in other industrialized countries, because commodities are so important on the export side. The other question is on the liberalization strategy and whether at the bottom of the recession the big bang is the right way. As a macro-economist I am a bit worried about a strategy that proposes a significant increase in unemployment as a way of getting a more liberal attitude for trade. Surely the first year and a half impact of a tariff liberalization would be a very large increase in unemployment before the gains and the increased exports take place. For one thing the export capacity isn’t there, so that the extra hiring really won’t be very quick. I would like to see at least some attention paid to the external conditions.

One is to have domestic slack, the other is to have an external market that is rapidly expanding, so that they are looking around for marginal suppliers. In that perspective it doesn’t strike me that the next three or four years provide a very good outlook for the world economy. There isn’t a big boom around. Any firm that sets itself up in new competition really has to ask whether the Mexicans and Brazilians, in the next four years aren’t going to undercut anything they can hope to sell. So the macroeconomics of trade liberalization really now don’t
look very good. If they don’t look very good, you will have to say: can we use the exchange rate as a big export subsidy to pour labour into those highly efficient new industries while the adjustment is under way. And there I think a floating rate is poor and the managed rate is better. If there is real wage resistance, then you really have to ask whether raising real wages in terms of imported goods allows you to cut them in terms of exportables. You really have to look a bit at what goes into the CPI and why it is that you should expect labour to find that an attractive idea.

PROFESSOR LARRY KRAUSE:

I think you can all recognise my position in writing about protection for an Australian audience, when in fact the world’s profession looks to Australians for this kind of guidance and of course to Peter Lloyd’s own recent survey of the literature. But I recognise that for the American audience in particular, more should go into the chapter, and I will in fact do that. What makes me somewhat pessimistic along with Wolfgang Kasper is the question of the kinds of government mechanisms that are now being created. I noted from the Summit that there is a new cooperative group between business, labour and the Government. While I am not against cooperation, I have asked the business men whom I have met what kind of business men are going to be on those cooperative councils. Are they those from the drawing rooms in the clubs that have been satisfied with protection in the past, or are they likely to be the go-getters? I was told uniformly that it is very likely to be the in-group that has
been satisfied with the closed market. So it does seem that it is cooperation for a comfortable existence, trying to keep from adjusting, rather than looking forward to adjusting and doing it better.

In terms of the direct foreign investors and their impact on the protection within this country one can ask some interesting questions. Because I have access to some General Motors people in the United States, I asked them how it could be that they were a major company standing for free trade in the United States, and yet the Holden subsidiary was one of the most protectionist groups in Australia? And the answer was: you either give local managers their head or you change the managers. We are satisfied with our man; we disagreed with the policy, but that is a local option for them. Whether that is a fully satisfactory answer is questionable - perhaps they were also calculating their net benefits, and from the US they would see more benefits from freer trade - but for their subsidiary in Australia, more protection. That's possibly also true, but that is how they viewed it - as a local option.

In terms of services, that is also an interesting question. I pass it off with a sentence which said "If one takes services into account, you don't get an appreciably different answer". I did look at services separately and you have this essentially no-growth trend in terms of internationalization. In my role as editor, I did pose some questions to people on topics that might fall elsewhere in the book. For example, I asked: did anyone in the financial
community see opportunities for Australia being in the same time zone, from the decline in Hong Kong that was necessarily going to occur? One might also foster an off-shore market and an international financial centre. I have uncovered very little interest in these types of prospects. So facing up to that in the chapter would just have led to another pessimistic suggestion that, as yet, Australians don’t see alternatives in service industries. I can’t say that I am very happy with that.