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THE POLITICAL ECONOMY OF AUSTRALIA'S TRADE AND ECONOMIC REFORMS: PROCESS AND LESSONS

The political economy of Australia's Trade and Economic Reforms: Process and Lessons

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The political economy of Australia's Trade and Economic Reforms

> "If you go into a pet shop every parrot is screeching microeconomic reform, microeconomic reform."[1]
>
> Paul Keating

This chapter describes the political economy of Australia's unilateral trade reform program over the past two decades. The objective is to identify the key lessons from this experience for South Africa as it considers embarking on a similar reform path. Australia is a case of ambitious, wide-ranging and unilateral trade liberalization having delivered very significant results. With other economic reforms, unilateral trade liberalization has delivered a more competitive, flexible and resilient economy.

In Australia's federal system the Commonwealth is responsible for trade policy. But in many key economic areas the states have the main responsibility. While this chapter is primarily concerned about trade policy reform, the Kennett and Greiner governments in Victoria and New South Wales implemented very significant economic reforms which were a central part of the overall reform effort.

The costs of reform are obvious, concentrated and incurred upfront. The benefits tend to be opaque, diffused and accrue downstream. A key issue is therefore how governments can compensate those who stand to lose from reduced protection so that the rest of the community can reap a reform dividend. Can social cohesion be maintained during ambitious reform? Can governments hold the line for long enough in the face of those arguing that the costs outweigh the benefits?

There are important lessons for South Africa in how Australia went about its economic reforms, and in particular its trade reforms. The Australian economy has been transformed so fundamentally that the nature of the challenge is often forgotten – although not by the many economists who argue that the benefits from the comprehensive economic and trade reforms of the 1980s are dissipating and that Australia cannot afford to rest on its laurels.

To understand the success of the outcomes a brief description of the nature of the Australian economy before the reforms is needed.

The Australian economy in the 1970s: Fixed Price Country

The Australian economy in the 1970s and early 1980s reflected the cumulative failure of successive governments to address major structural rigidities. These rigidities, which earned Australia the name of "fixed price country" by the end of the 1970s, were

[1] Bureau of Industry Economics, *Setting the Scene: Monitoring Microeconomic Reform*, December 1995, at http://www.pc.gov.au/bie/report/96-01/96-01.pdf, page 44.

reflected in some very poor economic outcomes: high inflation; high nominal wages growth; high and rising unemployment; intractable industrial disputes (which imposed particular costs on the resources sector as they undermined its reputation for meeting contracted outcomes); low productivity; centralised wage determination, with pattern bargaining; low innovation and investment; high real and nominal interest rates; falling terms of trade (which had been underway for many years, and which needed to be counteracted by rising productivity); rising current account deficits; and a pessimistic siege mentality towards the competitiveness challenges from globalization, especially in East Asia.

How had Australia descended to such results following the impressive economic performances of the 1960s? How would Australia compete with the industrialising economies of the Asia Pacific, especially Japan, Singapore, Hong Kong and Korea? Would the jibes from former Singaporean Prime Minister Lee, that Australia was on track to be the poor man of Asia and that its children would be washing dishes in Singapore, prove to be accurate?

Tariff protection underpinned the so-called Australian Settlement Compact. At its heart was the concept of "protection all around" (and compensation for the agriculture sector from its consequences). Its champion was former Trade Minister, and leader of the (then) National Party, John McEwen. As he put it (in 1968), "I have no doubt that if there were not a proper policy of protecting Australian industry we could not continue our migration policy or employ a rapidly growing work force within Australia."[2]

Up to the mid 1960s this statement reflected the broad view of the Australian public. To the extent that they thought about it at all, protection was viewed as justified to underpin high wages and to enable Australian industry to compete in its domestic market. The costs and consequences of protection were not yet widely known. The economic prosperity of the 1960s had not yet evolved into the stagflation of the 1970s.

That the consensus in favour of protection should change so fundamentally in such a short time, and be replaced by the unilateral trade liberalization undertaken by Hawke and Keating in the mid to late 1980s and early 1990s, is quite remarkable. One of the factors that underpinned that change in attitudes towards protection was a widespread perception that Australia's economic performances were deteriorating in the 1970s.

At the heart of the poor economic performances was a sclerotic set of industry policies. Protection was high. Manufacturing industries were more adept at seeking and keeping protection than they were in investing and being innovative. The economy was highly unionized. Wages were determined by collective bargaining rather than market forces. One union (traditionally the metal workers, whose sector enjoyed very high protection) would take the lead in wage negotiations. Whatever wage increases it could extract would become the benchmark for the rest of the economy – and be validated by the Reserve Bank via an accommodating monetary policy. The inevitable outcome was

[2] Snape, R, Gropp, L and Luttrell, T, *Australian Trade Policy, 1965-1997: A Documentary History*, page 53.

wage/price inflation. By the late 1960s all this was under challenge - by the Tariff Board, by the Treasurer and his Department and by a small number of other politicians and journalists.

Wages and industrial disputes were settled by the Australian Conciliation and Arbitration Tribunal, whose mandate was “the prevention and settlement of industrial disputes”.[3] Observers have noted that to get a case before the Tribunal there needed to be a dispute. There was accordingly an incentive to create a dispute rather than reach agreement between employer and employee, based on a shared assessment of requirements and market realities.

The Whitlam government (1972-1975) came to power after 27 years of Coalition (the Liberal Party and Country, subsequently National, Party) governments. It had a mandate to address a range of social and infrastructure issues. It stuck to its mandate, irrespective of economic conditions.[4]

Though economic reform was not prominent in its platform, in 1973 the government announced a 25 per cent tariff cut. Whitlam explained that the prime reason was “to reduce the growth of inflation: first, by allowing more imports to satisfy consumer and producer demands and thereby restrain upward pressure growth in prices of goods in short supply and, secondly, by restraining the growth in prices of imported goods. The long term aim was to facilitate the development of a more efficient economy.”[5]

In a policy replicated in the 1980s by Hawke and Keating, Whitlam “established a $25 million program of assistance to employees and firms who might have been adversely affected by the tariff reduction”.[6]

Many economists argue that while the 25 per cent tariff cut moved policy in the right direction, its suddenness and scale were very disruptive. The lesson was however not lost on Hawke and Keating and their Industry Minister, John Button: who opted for the policy of successive, small and pre-announced tariff reductions.

Whitlam laid the groundwork for the unilateral trade liberalization implemented by Hawke and Keating by establishing the Industries Assistance Commission, the successor to the Tariff Board. It “extended to all industries, primary, secondary and tertiary, a system of assistance which for the previous 50 years had applied only to manufacturing.”[7]

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[3] Union wage negotiating behaviour flowed from the so-called “harvester judgement” in 1905, whereby the wages required to keep a family at a decent standard of living were determined in a court.
[4] Whitlam would reportedly turn to his election manifesto after Cabinet meetings and tick off committments.
[5] Whitlam, Gough, *The Whitlam Government: 1972-1975,* page 192.
[6] Ibid, page 192.
[7] Ibid, page 192. A former senior public servant has observed to the author that Whitlam threatened to resign if his Caucus (the members of the Federal Parliamentary Labor party) refused to agree to the establishment of the IAC.

Whitlam was also responsible for two other issues central to the political economy of trade and economic liberalization. First, his vision encouraged a wide range of talented people to enter Parliament. Hawke inherited this talent when he came to power in 1983. Second, there was a desire not to repeat the economic policy errors that had characterised much of the latter period of the Whitlam government.[8] The lack of economic discipline in Whitlam's latter years was instrumental in underpinning the determination of Hawke and his senior Ministers not to repeat those errors.

Whitlam was replaced by the Fraser (coalition) government in 1975. Fraser's government has been criticised as lacking the conviction of its free market principles. It did little to address underlying economic rigidities, especially the emerging understanding that protection lay at the heart of Australia's economic problems. Its main economic policy initiative was to implement a wages and prices freeze to address strong inflationary pressures. This addressed the symptoms rather than the causes of inflation – which was an industrial relations system reliant on protection. This system allowed wage rises in the protected industries to be passed on to domestic consumers as they faced little or no price competition from imports.

The former Chairman of the Tariff Board, Alf Rattigan, has noted that protection by manufacturers "enabled the manufacturers to make the consumer pay for the industries' industrial peace. An increase in wages could be covered by an increase in prices without any loss of sales because the industries were well insulated from import competition. The wages won by the metal trade unions influenced wages generally in Australia, because the evidence received by the Arbitration Commission from both employer and employee organization related, in the main, to metal-fabricating industries. … The fact that these industries were capable of absorbing, without a loss of profitability, an increased wage bill greater than the increase in productivity thus created the precedent, and the conditions, for increased wages throughout the economy in a way which was likely to increase inflation."[9]

Others have noted that while the Fraser government did not widely increase tariffs, "it did introduce further structural assistance to affected sectors (including by lowering import quotas), which substantially increased the effective rates of assistance to those industries and slowed structural adjustment".[10]

[8] Whitlam was well aware of the problems flowing from the wage setting mechanism in Australia. "The chief economic failure of my Government resulted from the wage explosion of 1974. In part, our failure was a failure of communication, our failure to persuade the trade union movement to accept the central concept of Labor's program. … The specific origins of the wages explosion of 1974 can be traced to the decisions of the 1960s under Australia's unique system of industrial relations established before World War I. … The main cause of industrial conflict was not disputes over wages but disputes over managerial policy and physical working conditions". Whitlam, op cit, page 198.
[9] Rattigan, Alf, *Industry Assistance: The Inside Story,* (Melbourne University Press, 1986), page 79.
[10] de Brouwer, G, *Economic Reform and Growth in Australia,* Paper prepared for the Australian Studies Association of Japan Symposium in Nagoya, 14-15 June, 2003, page 3. The effective rate of protection includes the additional benefit that industries which enjoy protection have from securing access to imported inputs at low or zero tariff rates.

At the end of Fraser's government effective rates of protection in Australia had not changed much, if at all, from the levels at the end of Whitlam's government. Snape, Gropp and Luttrall provide estimates of effective rates of protection for manufacturing and agriculture between 1969-69 and 2000-01.[11] They estimate that effective rates of protection in manufacturing in 1974-75 were 28 per cent – down from 36 per cent between 1968-69 and 1970-71.[12]

A former Howard Government Minister, David Kemp, who was an advisor to Malcolm Fraser, has described the conditions Fraser inherited. "To understand the course of policy in 1976 it is important to recognise the context of government and settled policy tradition within which Fraser operated. The Australian economy in 1976, and in the decades leading up to that year, was politically managed – it might be more accurate to say interfered with - by government to a degree that we would now think was incredible and almost unimaginable. While the Federation policy settlement – as Paul Kelly has called it – had already begun to be dismantled – White Australia by Holt and tariff protection by Whitlam – Fraser truly stood at the transition point in relation to the role of government in the economy, and 1976 was a year that saw several of the key turning points in the management of the economy."[13]

Brennan and Pincus describe the outcome of the protectionist arrangements: "Wages boards had increased pay rates on account of profitability, which was itself boosted by tariff rises granted on account of the cost disadvantage of Australian industry caused by high wages; and so on. There was an artificiality about the economy, and an inward-orientation that to many contemporary Australian and foreign observers seemed conducive to complacency. Both the Tariff Board and tariff inquiry warned of the dangerous inculcation of what now would be called 'rent-seeking' mentality: "The most disquieting effect of the tariff has been the stimulus it has given to demand for government assistance of all kinds, with the consequent demoralizing effect upon self-reliant efficiency throughout all forms of production." "[14]

A growing understanding of the costs of protection

The three key factors in Australia's unilateral trade liberalization were:

- First, the Hawke/Keating governments, which were prepared to implement fundamental and wide-ranging economic reforms, including unilateral trade liberalisation;

[11] Snape, R, Gropp, L and Luttrell, T, *Australian Trade Policy, 1965-1997: A Documentary History*, page 13. Effective rates of protection include the higher levels of overall protection that is generated by having lower levels of protection on imported inputs.
[12] Ibid, page 13.
[13] Kemp, David, Australian Government, Archives of Australia, "1976 Cabinet Records. Advisors and Decisions, 1976".
[14] Brennan, G and Pincus, J, *From the Australian Settlement to Microeconomic Reform: the Change in Twentieth Century Policy Regimes*, Centre of International Economic Studies, Discussion Paper No. 0213, July 2002, pages 11 and 12.

- Second, the role of the Tariff Board and is successor organisations (the Industries Assistance Commission and the Productivity Commission) in systematically identifying and publicizing the costs and consequences of protection; and

- Third a media that took the results of the Tariff Board's work and informed an increasingly economically literate (and concerned) electorate of what this meant for future living standards - and facing the competitiveness threats from globalization generally and East Asia in particular. This meant that when Hawke and Keating were prepared to undertake significant unilateral trade liberalization they had the support of elite public opinion – which increasingly understood the need for reform if Australia was to regain lost competitiveness.

Hawke was able to build on the public perception that economically Australia was adrift – and losing competitiveness to regional countries such as Singapore, Korea and Japan. While elected on a mandate of "bringing Australia together", Hawke and Keating lost no time in addressing economic reform. The first, and arguably one of the most significant, reform was floating the dollar and deregulating the financial system.

Hawke's economic advisor, (now) Professor Ross Garnaut, has described the background to the reforms in the following terms. "The most important change in interest group behaviour, encouraged by the Hawke leadership style, was towards the emergence of economy-wide trade union and business groups. … Economy-wide perspectives gave greater weight to the national interest in liberal trade, significantly constraining the effectiveness politically of union and business groups advocating continued or increased protection of textiles, clothing, footwear and cars. In the new climate of opinion, more favourable to liberal trade, the NFF (National Farmers Federation) and AMIC (Australian Meat Industry Council) became more active in advocating trade liberalization. The Hawke government's freedom, and willingness, to press ahead with reductions in protection was encouraged significantly by the dominance of liberal approaches to trade within the opposition parties following the departure of Malcolm Fraser".[15]

Hawke himself was quite explicit. "We have to break loose from the notion, inherent in the negotiation framework, that one's own trade liberalization is a concession granted to others. … The freedom to act against one's own underlying interests is a freedom of little value. … The educative process on the costs of protection must … come … predominantly from within."[16]

The rising current account deficit was itself a major factor stimulating the need for reform. Keating's famous "banana republic" statement (of 1986) is worth quoting. "If in the final analysis, Australia is so underdisciplined, so disinterested in its salvation and its economic well being, [the] fall back solution is inevitable because you can't fund

[15] Garnaut, Ross, *Trade and tariffs in Australian business*, page 240, in Randall G Stewart, *Government and Business Relations in Australia* (Allen and Unwin, 1994).
[16] Snape, et al, op cit, page 5.

$12 billion [current account deficit] in perpetuity. … Then you have gone. You are a banana republic."[17]

This comment was widely reported. It came as a shock. It made people aware of their economic predicament. It helped make the public accept the need for reform – as long as the pain was shared in a socially acceptable way. It was reflected in a comment by John Button, Hawke's industry Minister on the feeling of the new Hawke government: "Most of us thought that Australia had slipped behind. There was a sense of wanting to get on with it, to get out of the economic recession and make some fundamental changes".[18]

Former Finance Minister Peter Walsh has noted that "Most telling of all was the fact, finally driven into the (Labor) Party psyche, that protection at the same rate and on the same products had the same effect as sales tax on income distribution. Moreover, ABS (Australian Bureau of Statistics) Household Expenditure surveys showed that the proportion of income spent on clothing and footwear by the lowest income decile was nearly three times as high as that for the highest income decile. …After this material was circulated in Caucus, the Left did not know how to deal with its dilemma – how to oppose consumption taxes that may or may not have been regressive, but simultaneously support protective measures which were demonstrably regressive. It still doesn't know because there is no answer."[19]

One of Australia's most eminent journalists, Paul Kelly, observed that the success of the Australian Labor Party, both nationally and at the state level, was underpinned by "better leadership, Cabinet authority over the party, and internal unity which amounted to superior political skills."[20]

The role of the Tariff Board and its successor organisations

The institution with the greatest influence on dismantling Australia's high tariff levels was the Tariff Board and its successor organisations – the Industries Assistance Commission and the Productivity Commission.

Snape et al have observed that "to the extent that authorities such as the Tariff Board are established to deflect the direct pressure of vested interests away from governments the more the authorities' decisions are overruled by the governments, the less useful they are to the government and the more likely governments are to attract the flak. The Tariff Board therefore could and did have a major role in tariff-making, a role that was not always in conformity with the Government's apparent wishes".[21] Snape et al quote extensively from letters between former Trade Minister McEwen and Tariff Board

[17] Snape, et al, page 85.
[18] Button, John, *As it happened,* (the Text Publishing Company, 1998), page 226.
[19] Walsh, Peter, *Confessions of a Failed Finance Minister,* (Random House, Australia, Ltd 1995), page 34.
[20] Kelly, Paul, *The end of certainty: Power, Politics and Business in Australia,* (Allen and Unwin, 1994), page 29.
[21] Snape et al, op cit, pages 22-23.

Chairman Rattigan, which gives the flavour of the political pressures under which the Tariff Board operated in its early days.[22]

Kelly argues that "The three greatest opponents of McEwenism had been Liberal Treasurer Billy McMahon, the chairman of the Tariff Board, Alf Rattigan, and Gough Whitlam. The final defeat of McEwenism was a triumph of a properly functioning democracy. It sprang from an irony, McEwen's misjudgment of Rattigan whom he appointed to head the Tariff Board only to discover that 'his man' became a convert to free trade. In 1966 Rattigan used the Tariff Board to embark upon a review of tariff assistance to every industry, the publication of the level of effective protection for each industry, and encouragement of a public debate about the costs of protection. Rattigan realized that once the true cost was laid on the bar of public opinion then protection was doomed. Secrecy was the lifeblood of Australian protection and Rattigan stripped it way in an epic battle with McEwen."[23]

Rattigan has provided some useful insights into how the Tariff Board managed to undertake its analyses and overcome political opposition from Trade Ministers McEwen and Anthony and the protectionist instincts of the major manufacturing industries. He refers to the consequences of "excess protection", which was "concentrated in the sections of the tariff protecting the production of machinery and fabricated metal products, and the Board's inquiries had shown that reductions of at least 50 per cent were necessary."[24]

In its 1966-67 Annual Report the Tariff Board noted that "From its study of the structure and levels of protection the Board proposes to establish an initial classification of industries into those which have: (a) a high level of protection, (b) a medium level of protection, and (c) a low level of protection in relation to the overall structure of assistance which Australian import competing industries operate."[25] The Tariff Board went further in its 1967-68 Annual Report, arguing that it "would usually regard new activities with low protective requirements – that is, 25 per cent or less in effective rate terms – as worthy of encouragement. … The Board's attitude to new ventures requiring effective protection of from 25 to 50 per cent would be influenced by its assessment of their future prospects and the likely effects on other industries. On the other hand, it would be unlikely to recommend effective protection of more than 50 per cent on other

[22] Snape et al quote a letter from Tariff Board Chairman Rattigan to Trade Minister McEwen: "I submit that if the Board were to accept a directive which is not apparent to all interested parties a situation would be created where the Board would appear to have formulated its recommendations on the basis of its examination of the evidence presented at its inquiry whereas the recommendations would in fact reflect a view reached by the Government of the Minister before the Board's inquiry – a view which might in some cases be contrary to the weight of evidence presented at the inquiry and the Board's judgement based on that evidence. Would this situation not constitute a danger to the whole Tariff Board system?" Snape et al, op cit, page 51.

[23] Kelly, op cit, page 44.

[24] Rattigan, op cit, page 132.

[25] Snape et al, op cit, page 45.

than a short-term basis for any new venture, including an extension of existing production."[26]

Rattigan singles out the lack of transparency behind high tariff levels: "There was no possibility of replacing the huge amount of assistance the manufacturers received through the tariff with tax concessions or subsidies. Even if it were possible, the manufacturers would not want it because subsidies were regularly reviewed by the Parliament and tax concessions generally did not have the 'permanence" of Customs duties."[27]

The Tariff Board had laid down a very clear set of markers for judging the merit of assistance: preference would be given to encouraging industries with lower protection against those requiring higher levels of assistance. This was a major point of departure for tariff policy in Australia. By publicly revealing the levels of effective protection, and making the case strongly against allowing an expansion of industries that depended on high levels of protection, the Tariff Board had achieved two very significant outcomes. First, it had, as Kelly has observed, "laid bare" the costs of protection. Second, it had provided the information for a vigorous public debate on the costs and benefits of protection.

Rattigan puts the issue succinctly: "Because of the great complexity of many government measures used to assist industries in all sectors of the economy, only an organization capable of obtaining from various sources a wide range of data and carrying out sophisticated analyses can provide worthwhile information on the costs and consequences of industry assistance. To ensure, as far as possible, that the information produced is objective, the organization should be divorced from the normal government administration and its investigations and reports should be open to public scrutiny."[28]

This has important implications for South Africa. A reading of Rattigan's battles with protectionist Ministers emphasises the validity of his conclusion – and demonstrates that without an independent Tariff Board and a media prepared to propagate its key conclusions, unilateral tariff reform in Australia would not have occurred when and on the scale that it did.

Newspapers, especially the Australian Financial Review, the Australian and the Age, vigorously promoted a debate about the costs of protection. Tariff Board reports, and those of its successor organisations, received extensive media coverage. Oped comments by academic economists reinforced an understanding of the costs of protection. From around the late 1960s, the costs of protection were becoming increasingly understood – not only by elite opinion but among the general public.

[26] Snape et al, op cit, pages 46-47.
[27] Rattigan, op cit, page 135.
[28] Rattigan, op cit, page 276.

As Rattigan has observed, "Immediately after the Board's (1969-70 annual) report was released, and for a long time afterwards, the press highlighted the figure of $2700 million (as the total cost of protection)"[29].

Snape et al have observed that "Over the next few years industry and protection policy was a battleground. On the one side were ranged many of the heavily protected industries and their industry associations … and the Trade Ministry; on the other were the Tariff Board, much of the economic press, most academic economists with interests in international trade and primary industry organisations – though not the leadership of the political party that represented farmers, the Country Party – and a lone politician, Bert Kelly. One of the main weapons of those in the freer trade camp was to bring the battle into the open. 'Public scrutiny' or 'transparency'of policy became the banner under which the Tariff Board and its successor, the IAC, were to fight."[30]

Dismantling protection

The story of the dismantling of protection in Australia is one of governments progressively responding to the challenges of globalisation – and the realisation that protection was not only not succeeding in creating the dynamic and competitive industries that Australia required, but was, on the contrary, imposing high costs on the most competitive areas of the economy: agriculture and mining.

The first major step was the 25 per cent tariff cut by the Whitlam government in 1973. There is general agreement that while a move in the right direction, the size and unexpected nature of this decision made the adjustment costs higher than they could or should have been. This decision informed the gradualist approach adopted by the Hawke-Keating governments.

The next major policy development was the May 1988 Economic Statement by the Treasurer, Paul Keating – which received the strong support of Industry Minister Button, who demonstrated a steely determination to confront those sectors which stood to lose from lower protection.[31] This statement announced that "over a transitional period to 1992, tariffs greater than 15 per cent are to be phased down to that level, except for textiles, clothing, footwear and passenger cars; tariffs between 10 per cent to 15 per cent were to phase down to 10 per cent; and a 'revenue duty' of 2 per cent was abolished".[32]

It is worth quoting from Hawke's statement of 12 March, 1991, in which he announced a further substantial tariff reduction program: "Right from the start, this Government deliberately and determinedly set about pulling down the tariff walls. By 1992 our

[29] Ibid, page 78.
[30] Snape et al, op cit page 21.
[31] Button was instrumental in securing agreement to various industry "plans". They reflected the reality of sunk costs – and that if capital-intensive industries such as automotive were to become more competitive they needed time to adjust and structural adjustment assistance – especially for re-training.
[32] Snape et al, op cit page 29.

existing programs will have slashed the nominal rate of assistance to the manufacturing sector by over one third, from 13% to 8%, and the effective rate from 22% to 12%.

Tariff cuts presented Australian manufacturers with a major challenge. To their credit, many of them are meeting that challenge. Their endeavours are too rarely appreciated and their success too often underestimated.

… (T)his Government will continue to open up the manufacturing sector and Australian industry generally through lower protection. I now announce:

- the general level of assistance will be reduced from 10% and 15% in 1992 to a general rate of 5% by 1996;
- tariffs on passenger motor vehicles will be phased down from 35% in 1992 in annual steps of 2.5% to 15% in 2000; …

I also announce:

- tariff reductions on textiles, clothing and footwear will be accelerated so that the maximum tariff will be 25% by the year 2000 and the termination of quotas will be brought forward two years to 1 March 1993; and
- general agricultural assistance will be reduced in line with the pace of tariff reform in manufacturing."[33]

It should be noted that under Hawke tariffs were reduced **unilaterally**. They were not tied to GATT negotiations. This reflected recognition that the benefits of reform flowed to the liberalizer.[34]

Emmery has noted that "The … announcements in 1991 were accompanied by some of the strongest statements made by Australian politicians in favour of trade liberalisation. Interestingly they were made at a time of economic recession and high unemployment. Prime Minister Hawke stated: Mr Speaker, the most powerful spur to greater competitiveness is further tariff reduction. Tariffs have been one of the abiding features of the Australian economy since Federation. Tariffs protected Australian industry by making foreign goods more expensive here; and the supposed virtues of this protection became deeply embedded in the psyche of the nation.

But what in fact was the result? Inefficient industries that could not compete overseas; and higher prices for consumers and higher costs for our efficient primary

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[33] Ibid, page 94.

[34] A former senior official in the (then) Ministry of Trade has advised the author that the prospect of using the unilateral tariff reductions as part of Australia's multilateral trade diplomacy did not inform the Government's approach to unilateral tariff reductions. Ministry of Trade officials subsequently used the reductions in the Uruguay Round. But Ministry of Trade officials played no role in designing the tariff reduction program. Another official has advised the author that unilateral tariff reductions gave Australia the credibility to lead the Cairns Group. This official contrasted this approach with Trade Ministers returning from negotiations in the Tokyo Round and earlier declaiming publicly how they had successfully resisted pressures to reduce tariffs.

producers. Worse still, tariffs are a regressive burden-the poorest Australians are hurt more than the richest.6)

Treasurer Keating was equally damning of the tariff: The package of measures announced today ends forever Australia's sorry association with the tariff as a device for industrial development. By turning its back on tariffs, Australia will be further propelled in its quest for international trade and efficiency, a search begun with the opening up of the economy in 1983 when we floated the dollar and abolished exchange controls. As in all nations before it, the pursuit of trade and competition has instilled in Australia a thirst for greater efficiency at home and a larger dominion abroad."[35]

It is true, as Emmery has observed, that these statements were made during a recession. But this recession accentuated the need for such unilateral trade liberalization: the public came to the view that the costs of retaining protection were just too high.

Emmery notes the complementary reforms introduced by the government. "The recession continued through 1992 and Prime Minister Keating introduced a range of measures to facilitate business growth and generate employment. These were outlined in his *One Nation* statement on 26 February 1992 and the *Investing in the Nation* statement on 9 February 1993. Measures announced in these packages included accelerated depreciation for plant and equipment, reduction in the company tax rate, measures to facilitate major projects and a number of incentives to encourage exports and innovation, as well as a range of initiatives to assist training and job creation. These positive measures no doubt helped to detract attention from the critics of trade liberalisation and the across-the-board progam to reduce tariffs announced in 1991 continued to operate as scheduled."[36]

In commenting on the tariff cuts, Snape et al have observed that "In an Australian context this was a bold and decisive more – comparable with the 25 per cent tariff cut in 1973. The explicit justification for it was more firmly based on economic theory and international experience than that earlier cut, tariffs being more directly relevant to economic efficiency than macroeconomic performance (though the two are not unconnected). The government had accepted – and had decided that voters would also accept – that the costs of transition were smaller than the costs of inaction. Many observers have identified the 'Banana Republic' comments by the Treasurer, on 14 May

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[35] Emmery, Michael, *Australian Manufacturing: A Brief History of Industry Policy and Trade Liberalisation*, at http://www.aph.gov.au/Library/Pubs/rp/1999-2000/2000rp07.htm. A useful summary of the other microeconomic reforms can be found in an article by Productivity Chairman Banks: *Structural reform Australian-style: lessons for others?,* pages 6 and 7, at http://www.pc.gov.au/speeches/cs20050601/cs20050601.pdf, page 6. These are summarised by Banks as capital markets, infrastructure, labour markets, human services, 'National Competition policy' reforms, macroeconomic policy and taxation reform.

[36] Emmery, op cit, page 2.

1986, as a key factor in turning public perceptions, and were somewhat surprised that there was no significant policy action at that time."[37]

A central element in the public accepting reductions in protection were the accompanying adjustment assistance arrangements.

Emmery provides figures on the costs of protection, including the budgetary assistance measures that accompanied structural adjustment programs introduced as part of the unilateral trade liberalization. "The main categories of Commonwealth assistance through the Budget have been, and continue to be:

- output bounties (which currently apply to books and shipbuilding, and previously to computers, machine tools, textile yarns and steel mill products)
- export incentives to specific industries, namely PMV, TCF and pharmaceutical industries and also general grants for Export Market Development, and
- incentives and other support for R&D, innovation, small and medium sized enterprises and world best practice programs.

There is an important distinction between the assistance provided to specific industries and the general assistance measures to support R&D, innovation and exports. The latter measures can be targeted at externalities and other market failures where there is evidence of a gap between public and private benefit in the absence of government intervention. These do not discriminate between different industries. On the other hand, the provision of bounties to selected industries provides the same protective benefits to recipient industries as the tariff, and involves the same distortions and disincentives. The difference is that industry bounties are paid for by the taxpayer - & transparent & thus likely to prove temporary-and tariffs are mainly paid for by the consumer.

The assistance package provided has varied significantly from year to year. Some assistance programs have been established with a specific sunset clause of say five years while other programs have come and gone reflecting trade-offs between various industry policy priorities and the on-going search for candidates to contribute to government expenditure restraint.

Some of the key developments in Budget assistance to manufacturing have been the growth in industry specific assistance under the Hawke Government from 1983-84 to 1989-90 with the introduction of bounty assistance for a number of new industries. Subsequent trends are shown in Table 1. The data in this Table was compiled by the Productivity Commission who include in assistance to manufacturing a number of programs, including assistance to exporters, which are not allocated to specific sectors in the Treasury Budget papers. For example, the Productivity Commission put budgetary outlays to manufacturing in 1998-99 at $635 million while the corresponding Budget figure is $552 million.

[37] Snape et al, op cit pages 29 and 30.

Table 1 indicates assistance doubled between 1991-92 and 1994-95 reflecting expanded programs for industry specific assistance and in general assistance for R&D and enterprise development measures.

Table 1: Commonwealth Budgetary Assistance to Manufacturing Sector

	1991-92 $m	**1992-93 $m**	**1993-94 $m**	**1994-95 $m**	**1995-96 $m**	**1996-97 $m**	**1997-98 $m**	**1998-99 $m**
Budgetary outlays	658	756	786	810	673	614	614	635
Tax expenditure measures	522	1021	1137	1572	1007	1058	837	807
Total budgetary assistance	1180	1777	1923	2382	1680	1672	1451	1442

Data for 1998-99 are budget appropriations. Data for earlier years are government expenditures.

Source: Productivity Commission, *Trade & Assistance Review 1997-98* and personal communication.

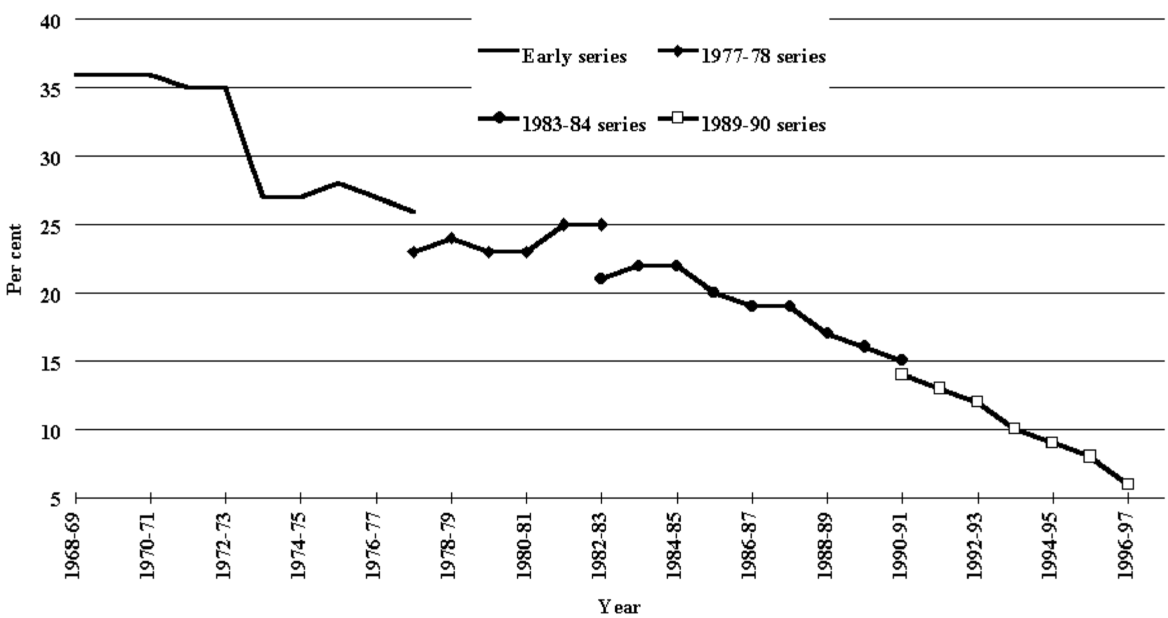
Since 1994-95 total budgetary assistance has declined; the main reductions being in the tax concessions area with the phasing out of the general investment allowance on plant and equipment and the reduction in the R&D tax concession from 150 to 125 per cent in 1996. With respect to budgetary outlays, expenditure savings have been made through the phase down (and in most cases, abolition) of bounty assistance to specific industries and also the abolition of the Development Import Finance Facility. On the other side of the ledger, there have been significantly increased outlays for the Industry Innovation Program and for the pharmaceutical industry Factor f Program. The successor to Factor f, which commenced in July 1999, involves a lower level of assistance to this industry.

To provide some relativity to Budget assistance to the manufacturing sector, it can be expressed as a percentage of value added in manufacturing or in terms of assistance per person employed in manufacturing. Hence in 1997-98, Budget assistance to manufacturing in Australia was $1451 million which represents 2.3 per cent of the $62 billion value added in manufacturing. Later in this paper, it is shown that the corresponding ratio of State aid to manufacturing as a percentage of value added in the European Community is marginally higher at 2.6 per cent. It is noted, however, that over half of State aid to manufacturing in the European Community goes to regional assistance which is a very minor component of Commonwealth Budget assistance in Australia.

Employment in Australian manufacturing in 1997-98 was 1.12 million and Budget assistance per person employed was $1319. The corresponding figure for the European Community was higher at about $2000.

The average nominal and effective rates of assistance for the total manufacturing sector, and for three of the more highly protected industries (textiles, clothing and footwear and motor vehicles and parts), are shown in Table 2.

Figure 1. Average effective rates of assistance to manufacturing



Source: Industry Commission, Assistance to agriculture and manufacturing industry, Information Paper, March 1995

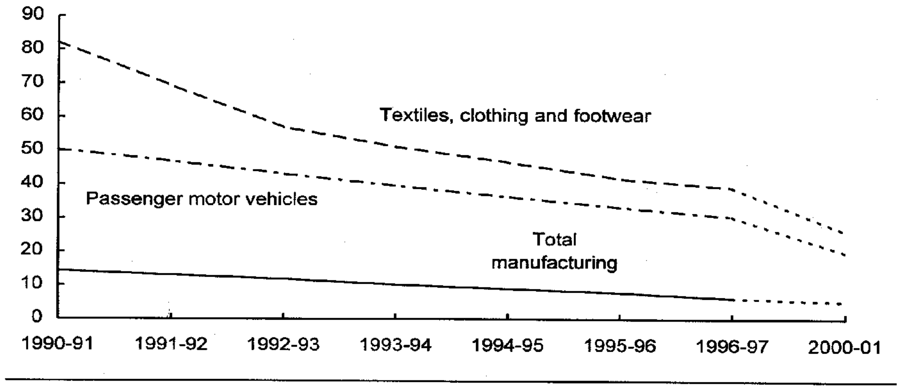
The time series data (not quoted) indicate the following trends in the level of assistance afforded to the Australian manufacturing sector over the past 30 years:

- The trade liberalisation process in Australia started with the 25 per cent across-the-board tariff cut in July 1973. This reduced the average nominal rate of assistance for manufacturing from 22 to 17 per cent and the average effective rate from 35 to 27 per cent.
- The next decade from 1974-75 to 1984-85 witnessed a stable average level of protection for the manufacturing sector as a whole but some marked changes in the assistance afforded different industries within the sector.
- Assistance to the textiles, clothing and footwear and passenger motor vehicle industries blew out over this period under a regime of tariff and quota arrangements and the local content plans for passenger motor vehicles. The

average effective rate for textiles increased from 39 per cent in 1974-75 to 75 per cent in 1984-85; the corresponding rate for clothing and footwear rose from 87 per cent to 250 per cent over this period; and for passenger motor vehicles and parts, from 54 per cent to 143 per cent.

- § The large increases in assistance to the above three industries were offset by declining assistance to a wide range of other manufacturing industries as part of the Tariff Review Program.
- § The subsequent period from 1984-85 to the present and continuing to 2000-01 has seen a continuous, almost linear, decline in the level of assistance to the manufacturing sector and in this period, textiles, clothing and footwear and motor vehicles have been key elements of the trade liberalisation process.

Figure 2: Average effective rates of assistance to manufacturing PMV and TCF, 1990-91 to 2000-01



Source: Productivity Commission, *Trade and Assistance Review* 1997-98

In terms of 'net subsidy equivalent', TCF and PMV together accounted for half of the manufacturing sector total in 1996-97. By 2000, the share of these industries is estimated to fall to 40 per cent. The level of assistance paid by the consumer is particularly evident in the figures on 'consumer tax equivalent' per passenger motor vehicle of $3400 in 1996 and dropping to $2100 by 2000. This reduction in the consumer tax equivalent of $1300 per vehicle should be translated into a corresponding drop in average Australian motor vehicle prices."[38]

A former senior public servant has observed to the author that there was another, more subtle, issue that underpinned the dismantling of protection and the wider microeconomic reforms that were undertaken by Hawke and Keating. Industry representatives argued strongly to senior Ministers that as they had lost their tariff protection, the Government had an obligation to pursue further microeconomic reform. The argument was that the economy needed to become as efficient as possible to enable firms that had lost tariff

[38] Emmery, op cit, pages 6 and 7.

protection to be able to compete. Industry argued that input costs for manufacturing needed to be lowered via more vigorous competition policy – and especially for key inputs such as gas and electricity.[39] The author has been told that this argument informed the Government's decision to implement complementary microeconomic reforms.

A key feature of Australia's unilateral tariff reductions was to reduce tariffs progressively in small, pre-announced, increments. A former senior public servant who was involved in the tariff reductions in the auto industry has told the author that the slow pace of tariff reduction in the auto sector was informed by an understanding that investment timeframes in the sector were long. Time was needed for the capital stock to adjust to lower tariffs. This also meant that there was a consensus that there needed to be structural adjustment programs, especially retraining, for those who had lost their jobs. Retraining programs were complemented by programs to encourage investment in new technology and research and development. The objective was to encourage firms to move up the value chain.

Structural adjustment assistance and equity

How to absorb the labour released by lower tariffs was a major preoccupation. Peter Walsh has put the issue succinctly: "An IAC report in 1977 showed that far from being the decentralized industries they purported to be, they (textiles, clothing and footwear) were heavily concentrated in capital cities, in the south-east, and particularly in Melbourne. Claims that these industries were essential for the employment of otherwise unemployable females were confounded by the fact that female unemployment in such states like WA (Western Australia), with virtually no such industry, were no higher than in Melbourne or elsewhere."[40]

Garnaut emphasises equity issues: "The Australian compulsory-voting democracy required market-oriented reform to be taken forward within wider policies that acknowledged traditional Australian concern for equitable distribution."[41]

Garnaut draws a wider conclusion about the importance of matching economic reform with distributive equity. "Prime Minister Hawke's Economic Statement of March 1991 announced the reduction of tariff protection to below the low levels in place at the beginning of the century. Considerable flexibility in wage determination was introduced under the Labor Governments and extended by the Howard Coalition after 1996. In wages policy, however, neither the shift nor the extension extended to "safety net"

[39] This is an interesting counterpoint to the tariff compensation argument that prevailed prior to the dismantling of tariff protection – whereby agriculture needed to be compensated for the higher costs of tariff protection.
[40] Walsh, Peter, op cit, page 35. One of the arguments in favour of protection is that without it there would be no TCF industry – which was a major employer of migrant women who lacked other skills. This argument carried significant weight in public opinion until the Tariff Board and its successor organisations published estimates of the costs of providing protection to sustain these jobs.
[41] Garnaut, Ross, *Equity and Australian Development: Lessons from the First Century*, page 7, at http://rspas.anu.deu.au/economics/publish/papers/garnaut/2002_0726_Equity.pdf.

minimum wages, which after a period of moderation within the (wages and incomes) Accord rose more rapidly in real terms in the last 5 years of the century than over any comparably long period from the original adoption of the Harvester (wage) Judgment approach (in 1905), excepting only the years of the Whitlam Labor Government in the mid-1970s".[42]

A concern for equity had other implications. Garnaut argues that "The policies of "protection-all-round" owed a great deal to the Australian concern for horizontal equity. Tariff protection for manufacturing industries and fiscal subsidies of various kinds had a large and inequitable effect on the vertical distribution of income, but were broadly accepted as being fair to the extent that they seemed to be applied equitably across producers of various goods".[43]

The need to compensate the losers from structural adjustment was made very clear by Hawke in his 1991 Statement – Building a Competitive Australia. "Throughout my public life it has been my firm conviction that if the community believes that change is necessary in the interests of the community as a whole, then that belief carries with it a necessary corollary – that the community must not leave those individuals or groups who are adversely affected to bear the whole burden of change. It must itself be prepared to share that burden of change, as well as reaping the benefits of change. Accordingly, we will establish labour adjustment programs to assist displaced workers in our car and textiles, clothing and footwear industries with relocation, training and wage subsidies for redeployment to other jobs. This will cost at least $90 million over the life of the programs."[44]

Hawke reflected on reform and equity after his political career ended. "As with the approach to tariff reductions, the readiness of the community to accept change, and continuing macro and micro economic reform more generally, will be a function of its perception that the rewards of growth are equitably distributed. This was the point of the Accord processes. Under those processes the tendency towards a widening dispersion of market income was offset by a combination of more progressive tax scales and means-tested cash transfer systems. I do not assert that we got everything right nor do I argue for a revival of the Accord. But I do assert that those basic objectives remain indispensable to growth with cohesion."[45]

Some wider political and policy issues

[42] Ibid, page 7.
[43] Ibid, page 15.
[44] Snape et al, op cit, pages 94-95.

[45] Speech by The Hon RJL Hawke AC, Opening Address to the Australia Unlimited Conference, Melbourne, 4 May 1999 at http://www.unisa.edu.au/hawkecentre/library/speeches/1999_may_unlimited.asp.

The wide-ranging microeconomic reforms, which were started by Whitlam, were in limbo during Fraser's government and accelerated by Hawke and Keating and taken further by Howard (for example in industrial relations and tax policy), need to be seen in the context of the internationalization of the Australian economy. Tariff reductions did not take place in isolation.

It is widely accepted in Austrlia that it would have been better off if tariffs had been lowered during the 1960s when growth was strong. But history, both in Australia and elsewhere, suggests that unilateral reform does not happen when times are good. It takes a sense of economic crisis to make the public accept the pain of reform for the longer term benefits reform delivers.

The tariff and other microeconomic reforms need to be seen the context of the Australian community waking up to their predicament: the prosperity that appeared never ending in the 1960s came to a shuddering halt by the mid 1970s. East Asia was growing strongly and posing a major challenge to the heavily protected manufacturing sector.

The current account deficits, as reflected in Keating's "banana republic" remarks, jibes by Singapore Prime Minister Lee, stagflation and the growing perception that Australia could not afford to stand still in the face of the Asian challenge were also instrumental in preparing the ground for major change.

What had been so conspicuously lacking under previous governments was political courage. Hawke and Keating and their talented team of Ministers were the spark needed to take advantage of the political conditions that had gradually emerged over the previous 15 years – and reflected in a public looking for a new direction and willing to reward rather than punish governments prepared to undertake economic reform.

Hawke's political skills were critical. He was elected with a vague mandate of "bringing Australia together".[46] He did not have a mandate for radical economic reform. What he did have was a capacity to relate to the Australian people. He had close links with the trade union movement from his previous experience as President of the Australian Council of Trade Unions.

Observers have argued that it took someone with the cold war political credentials of former Presidents Nixon and Reagan to establish a dialogue with China and Russia

[46] An insight into Hawke's consensual approach to politics, which was one of the factors that enabled him to persuade the public of the need for unilateral trade liberalization, can be seen from the following observation he has made: "government should not regard one side of the industrial relationship as "the enemy". The unprecedented decline in industrial disputes during our period of office was not simply a function of our co-operation with the trade union movement. We made the employers equal partners in the work of the Economic Planning Advisory Council and our doors were always open to them. Some groups and individuals on both sides have often acted with scant regard for the public interest but the reality is that trade unions and employer organisations are central and legitimate parts of our economic and social fabric." Speech in honour of Sir Richard Kirby, at http://www.unisa.edu.au/hawkecentre/library/speeches/1999_april_kirby.asp

respectively. The same can be said of Hawke and the trade union movement: it would have been much more difficult for a conservative politician to persuade workers in protected sectors that they needed to give up their privileged position for the good of the wider community – and to accept the significant decline in real wages under the Accord with the trade unions that was required to increase the profit share and hence underpin investment.

Similar credit needs to be given to Keating's political skills. He gave the Australian public a crash course in the need for microeconomic reform – as reflected in his quotation presented at the start of this article. To take Keating's saying to its logical conclusion, parrots were able to speak about microeconomic reform as they had heard so much of it from Keating himself. As former Industry Minister Button has observed, "Keating talked as if it was some sort of natural meritocracy. I remember his finger jabbing the air somewhere in front my chest. 'You've got to remember, mate, we're here because we're the best'".[47] Paul Kelly argues that in retaining John Stone as Treasury Secretary, "Keating, alive to the Whitlam legacy, was sending a message: this Labor administration believed in harnessing the support of the economic institutions."[48]

Former Finance Minister Walsh has emphasised Keating's highly effective political skills. "Apart from two lapses, one rhetorical and the other substantial, Keating has maintained the commitment to free trade and an open economy which he developed in the 1980s. In late 1992 his rhetorical flourishes, which were supported by what remains of the once formidable protection lobby, blew the modest difference between the Opposition and the Government tariff policy out to a life or death matter."[49]

The role of Hawke's advisors should also be mentioned as they played a not insignificant role in persuading him of the need for significant economic reform. Paul Kelly argues that "Garnaut was a strategic thinker whose influence on Hawke was never remotely matched by any subsequent economic advisor."[50]
Another issue worth noting is the prices and incomes accord between the Government and the trade unions. Australia needed a reduction in real wages to enable an increase in the share going to profits to enable an increase in business investment. This was achieved by persuading workers to satisfy wage demands in the form of government superannuation contributions rather than as nominal wages. There is near universal agreement among economists in Australia that this was instrumental in breaking the back of wage inflation and in enabling a substantial shift to profits. Other commentators have argued that in the end the Accord acted as a constraint on reform as it effectively allowed

[47] Button, John, op cit, page 226.
[48] Kelly, Paul, op cit, page 58.
[49] Walsh, Peter, op cit, page 252.
[50] Kelly, Paul, op cit, page 58. In his writings on economic reform in Australia, Garnaut does not address his own contribution. A former senior officer from the Productivity Commission has argued to the author that Garnaut has been too modest about his own contribution to lowering tariffs, the floating of the dollar and financial market deregulation. This observation is consistent with a quote in Paul Kelly's book: "Ed Visbord (an economic advisor in Hawke's office) said later "Hawke never took advice on a single economic issue unless it coincided with that of Ross Garnaut' ". Kelly, Paul, op cit, page 58.

the trade union movement a seat at the Cabinet table – and gave them a veto on reform initiatives.

The Reserve Bank of Australia has concluded that "The wage pause and the Prices and Incomes Accord restrained real wages, encouraging a shift in the capital/labour ratio."[51] Hawke's own assessment is worth noting. "Increases in money wages need not be seen as the only mechanism by which to achieve this goal of equity. Under the Accord which operated throughout the period of my Prime Ministership, the trade union movement accepted restraint in movements in money wages in return for improvements in the social wage, particularly but not exclusively, in the areas of education and health. While these benefits had a more general application, the government and the trade unions accepted that because of the application of means-testing provisions, the greatest beneficiaries were those at the lower end of the wage scale."[52]

The political economy of unilateral trade liberalization

A precondition for persuading the public of the need for trade liberalization is to get them to understand the costs and consequences of protection. The Tariff Board and its successor organisations, together with a media that was prepared to take the results of this research and educate the public, played a pivotal role in preparing the ground and changing public attitudes. This suggests that South Africa should establish a similar body - or pay others to undertake this work.

It was the sustained output of successive reports by the Tariff Board and its successor organisations, rather than any particular report, that prepared the ground. The Australian experience demonstrates the value from having an independent organisation undertake research on the costs of protection is highly desirable.

It is also important to understand that these reports were seen as credible as they came from an independent body. There was no question of the Government "leaning on" the Tariff Board to come to particular conclusions – albeit that there were considerable tensions between the Board and particular Ministers on its reports.
The Chairman of the Productivity Commission, Gary Banks, has observed that "The tariff liberalization program and the NCP (National Competition Policy) are two important examples. Features of the Australian story that help explain its success in this respect include the institutions and implementation strategies detailed here that were devised to promote an awareness of the benefits from reform, to help build political support, weaken resistance and promote adjustment".[53] Banks concludes that "Political leadership is critical to structural reform, but its influence on policy in the longer term can be ephemeral. Its most enduring legacy may well come from more fundamental actions to

[51] Reserve Bank of Australia Bulletin, October 1995, *Productivity and Growth*, page 41, at http://www.rba.gov.au/PublicationsandResearch/Bulletin/bu_oct95/bu_1095_5.pdf.
[52] Hawke, Robert, op cit.
[53] Banks, op cit, page 28.

entrench institutions and processes that can facilitate ongoing reform beyond the life of any one government".[54]

The quality media not only took the reports of the Tariff Board, but more broadly educated the Australian public on the economics of trade liberalization. They published the work of academic economists and others articulating the costs and consequences of protection. This meant that by the time Hawke and Keating came to power and were prepared to undertake necessary reforms, they were "pushing on an open door". The public was prepared to accept such reforms.

That leads to another conclusion: while it would be desirable if reforms were undertaken during economic prosperity, Australian (and New Zealand) experience suggests that the incentive to do so is not as strong during prosperity. Necessity tends to be the mother of policy ambition. Australians had become used to economic prosperity during the 1960s. Stagflation in the 1970s, and adjusting to the rise of East Asia, came as a shock. There was an acceptance that things could not continue as they were. People increasingly understood that the paradigm of protection needed to give way to the realities of global competition.

Political management of reform along the lines undertaken in Australia requires impressive political and communication skills. Australia was fortunate that Hawke and Keating came to power when they did. The ground had been prepared. But there was nothing inevitable about what they did. It took very considerable political courage to undertake the wholesale trade and economic reforms there were implemented progressively from 1983 onwards.

Central to that political management was an acceptance that the losers from reform needed to be compensated. Equity is deeply engrained in the Australian psychology. Appropriately designed adjustment assistance, especially retraining but also programs to encourage investment, innovation and research and development expenditure, were central to the reform effort. Designing programs to absorb labour released by reform programs is likely to be particularly challenging in South Africa.

Australia's experience also demonstrates that adjustment packages need to be carefully designed, sequenced and targeted. It is easy to waste resources and to overcompensate losers. Growth compensates losers as they are able to get other, often higher paying, jobs.

The implications for South Africa from Australia's reform experience are that there needs to be sufficient analysis of the costs of protection; the media and politicians need to get people to accept the need for change; political courage and skill are needed to implement reforms and to give the public confidence that the reforms will be sustained for long

[54] Ibid, page 29. A former senior Australian Government trade official has observed to the author that without the National Competition Policy, and payments to state Governments to reform services and investment arrangements under their jurisdiction, Australia could not have produced the comprehensive negative lists that were central to the negotiation of the free trade agreement with the US.

enough to deliver benefits; and there needs to be a consensus that those losing from reform need to be compensated in an appropriate manner. Finally, there needs to be an element of luck in the timing of reforms. It would be better to implement reform during prosperity. But the incentive for reform is often bad economic performances.

There is no argument in Australia that there should be a return to protection, albeit that the need for a more interventionist "industry policy" never dies. It can be argued that the demise of protection has been aided in Australia by timing: to have reformed the Australian economy in time to take advantage of the commodities boom from the rapid increase in global growth from China and India. Luck played a part. But Australia made its own luck by ambitious unilateral trade liberalization and complementary microeconomic reform. That is the key lesson South Africa should take from Australia's reform experience.

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