



RECOMMENDATIONS

- Trade policy reform must be accompanied by government transparency, which will enable public debates and discussions on such reform, which, in turn, will encourage public support for trade liberalisation.
- Transparency in trade policy reform means reform that is based on tangible evidence produced by either an independent body of experts such as the Australian Productivity Commission or commissioned expert reports. Such reports should be made publicly available to allow the public to engage with the findings.
- As with any reform, there will be losers and winners and, particularly in the short term, the impacts may be adverse. Adjustment assistance in the form of social safety nets for the short-term losers will ease the transition to trade liberalisation.
- The media are a key channel of communication between government and the public. Media freedom and access to information support transparency in policymaking. The media need to be proactive and actively engage with the issues, drawing on the evidence presented.
- South Africa should carefully study Australia's experience, including how its Productivity Commission and predecessor organisations ensured that Australia maximised the socio-economic benefits from its trade and economic liberalisation.

Transparency in Trade Policymaking: Lessons for South Africa from Australia's Experiences

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EXECUTIVE SUMMARY

Trade policy reform in the form of trade liberalisation is a very important tool for raising living standards and improving a country's economy. Such reform on its own, however, is likely to be rejected by the public and those sectors that would be most adversely affected. The key to gaining support for trade policy reform really lies in the concept of transparency, which helps to explain policy change, which in turn assists the public to accept change and creates a coalition for change. Australia is a very good example of the power of transparency in trade policy reform. The Hawke government, elected in 1983, managed to liberalise a highly protected economy through the successful application of transparency. The government ensured that the public was privy to all information related to trade policy reform. Very influential in this drive was an enquiring media and an intellectual base that produced independent, evidence-based reports on the costs of trade protectionism. The short-term risks and long-term benefits were made clear to the public and, simultaneously, adjustment assistance was provided for those that would be most adversely affected by reform. Rather than pursue trade protectionism, South Africa could learn from the Australian experience by setting up a body of independent experts to determine the benefits of trade policy reform and publish their findings. Reform should be accompanied by openness and honesty, which will help garner public support for it if the public is kept fully informed of the need for it and the processes involved. The media should also engage with such issues and report on them. As long as the government tackles trade policy reform in an honest and

transparent manner, the benefits are likely to outweigh the disadvantages.

INTRODUCTION

Transparency is important in all areas of public policy. It enables governments to explain why they are undertaking policy reform; what they think the costs and benefits will be; when the benefits will accrue; and how the burdens of adjustment will be shared among the community.

From the government's perspective, transparency has several benefits. Firstly, it is a means of explaining policy change. Secondly, it is a way of convincing the public to accept policy change – especially if the government can publish credible estimates of the costs and benefits of change. Thirdly, it is a way of establishing a coalition for change.

There is no agreed definition of transparency. Information is not the same thing as transparency, which is more than just a set of numbers and claims. At its worst, it is merely political spin. At its best, it is a sophisticated and open process of taking the public into the government's confidence and releasing credible and independent estimates of the costs and benefits of the proposed change.

Transparency is, above all, political honesty: this is what we want to do; this is why we believe it is important; this is how we will compensate those who are adversely affected; and this is how long we think it will take for the benefits to accrue. And we are happy to be judged on the outcomes at the next election.

WHY TRANSPARENCY MATTERS

Any economic reform, but especially trade policy reform (such as reducing protection, eliminating subsidies, changing agricultural marketing boards to accord with World Trade Organisation requirements, etc.) involves short-term costs in return for long-term benefits.

The costs of trade reform are upfront, immediate and obvious, and affect narrowly defined groups. The benefits are downstream, diffuse and tend to affect a wide range of people, but generally not to any substantial degree.

People may not even be aware of the benefits. It is much easier to marshal political support against trade liberalisation among a concentrated group of people who believe they will be losers because of it, but it is much more difficult to convince those who will benefit from the reform to lobby in support of it.

It is important that governments take the public with them on key reforms. The bigger the reform, the more costly it is likely to be in the short term. It is desirable for governments to be honest and transparent in explaining the reasons for policy change. Such transparency is more likely to encourage the public to assess the costs and benefits of change and, from the government's perspective, to support it. In a political and social sense, there needs to be a consensus for change if the burdens are going to be shared and the community is to have the patience to see through what are likely to be costly short-term changes.

TRANSPARENCY, TRADE REFORM AND TARIFFS: AUSTRALIA'S EXPERIENCE

By the time the Hawke government was elected in 1983, it was clear that Australia was in serious economic trouble. It was a highly protected, sclerotic economy. Tariffs were very high; exchange rates were fixed; inflation was high. There was a high level of regulation, including financial regulation. Unions engaged in pattern bargaining behind high tariff walls, while competitiveness was falling. The golden days of the 1950s and 1960s were over, and a new reality had set in. Asia was rising fast; Australia was falling behind. It was not pretty.

The Hawke government was not elected on a reform mandate, but it pursued reform with courage and conviction. A key asset was Hawke himself. Like Ronald Reagan, he was a great communicator. He could explain in words so that the average Australian could understand why change was needed. As a former president of the trade union movement, he had credibility with workers, who listened to him and liked him.

In Australia, transparent policymaking was key to trade and other reforms. The country

was in a sense fortunate, as the intellectual case in favour of reducing protectionism had already been won for quite some time through the work of the Tariff Board and its successor organisations.

It had published the costs of protection, and the public understood that the costs of protection were just too high. The media had conducted a lively public campaign from around the middle of the 1960s in favour of tariff reform. This had been going on for 20 years by the time Hawke came to power and was prepared to reduce tariffs. There was inevitable rent seeking, but when rent seekers approached the government seeking special favours, or delayed reform, ministers had the evidence to reject them.

Australia was, arguably, the most transparent of all developed countries in reducing protection. Tariff Board reports were debated at length in the media. Australians gradually came to understand a key truth: protectionism was lowering living standards.

There was a disposition to accept change – as long as winners compensated losers. Transparency also helped in this regard, and the costs of change were made public. The lesson is clear: not only is it easier to mount a case for change when the costs and benefits are transparent to all, it is also easier to design compensation programmes and relate them to the costs of the protection.

TRANSPARENCY AND WEALTH CREATION

Transparency enabled tariff reform, which in turn was the key to why Australia has become such a more productive, vibrant and wealthy country. The graph below shows why. It measures effective rates of protection – in other words, rates of protection adjusted for the protection received via lower tariffs on imported inputs. The results are stark.

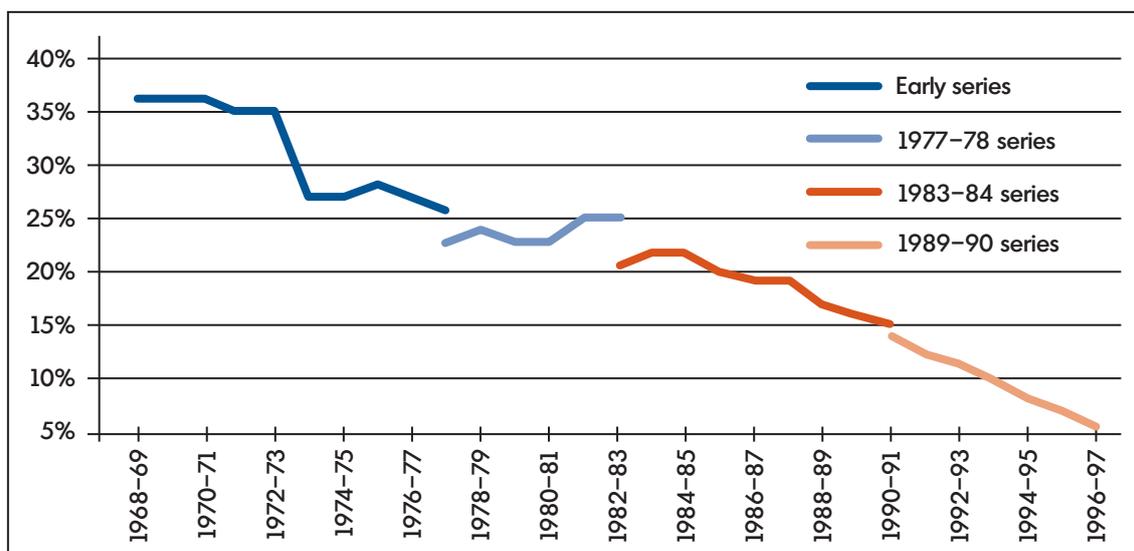
These changes would have been unavoidable anyway, but social cohesion was better than it would otherwise have been because of the transparency exhibited by Hawke and his ministers (especially his treasurer, Keating, and industry minister, Button).

ROLE OF ADJUSTMENT ASSISTANCE

Australians were prepared to accept the need for reducing protection, but they wanted adjustment assistance for those who would be most adversely affected, primarily those in heavily protected manufacturing like autos, textiles and clothing.

The key element was retraining. There was hardship – older people find it hard to retrain and get another job. But there were also generous social welfare provisions for them.

Figure 1: Average effective rate of assistance to Australian manufacturing, 1968–97



Source: Industry Commission, 'Assistance to agriculture and manufacturing industry', information paper, March 1995

FLOW ON REFORMS

It quickly became apparent that reducing tariffs was necessary. But it was not sufficient, and a much wider set of reforms was required. In addition to transparency, these reforms were aided by the Accord drawn up with the trade unions. Australia had to reduce the share of wages and increase the share of profits; the instrument that permitted this was the Accord. Trade unions agreed to lower real wages in return for increases in the social wage – especially superannuation², which was arguably one of Australia's most innovative reforms.

Financial and banking deregulation was pursued. State-owned enterprises were corporatised and privatised and competition policy was vigorously pursued. The outcomes have been outstanding, but major challenges remain, including the need to adjust to the reality of the China boom that is likely to characterise most of this century.

A COMMON THEME: TRANSPARENCY

Throughout all these reforms, there was a common theme: transparency in policymaking. Successive Australian governments were open, honest and transparent in the policy reforms they introduced. On the whole, the Australian public repaid that honesty with support. Governments gradually came to understand that transparency in policymaking was a necessity, not an option if they were to minimise the economic costs of reform – and the political costs to themselves.

SOME IMPLICATIONS FOR SOUTH AFRICA

Australia is an example of a country that delayed reform until the last possible moment. Unlike

Argentina, Australians decided not to continue with policies that had reduced wealth and opportunity.

A key reason for the success of Australia's reforms was the open, honest and transparent way in which policy was developed and implemented. This was aided by two key assets: the Productivity Commission (the successor to the Tariff Board) and a quality media.

Australia's challenges in the mid-1980s were severe. But South Africa's challenges make those confronting Australia seem minor by comparison. South Africa should consider establishing and funding a Productivity Commission along the lines of Australia (the alternative is to commission independent expert reports). There are very considerable benefits for a government in referring difficult issues to such a body and having experts estimate the costs and benefits of a reform proposal and publish a report.

A quality media will publish these reports, and in Australia at least, the broadsheets also reported their findings, albeit with less support than the quality media. The overall conclusion is very clear: transparency helps develop the constituency for change that is required if policy reform is to be successfully implemented.

ENDNOTES

- 1 A former senior Australian diplomat, with widespread experience in trade and economic policy, Bill Bowen is principal consultant at ITS Global, an Australian consultancy.
- 2 In Australia, 9% of workers' salaries is paid compulsorily into their superannuation accounts by their employers. Employees can make additional superannuation contributions. This system was one of the key reforms of the Hawke/Keating governments. It has been an outstanding success, and savings in Australia have been substantially higher than they would otherwise have been.

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