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The Chairman  
Productivity Commission  
P.O. Box 80  
Belconnen ACT 2617

Dear Sir

I wish to lodge the attached papers as part of a submission for your advertised hearing on the socio-economic and environmental effects of the National Competition Policy.(NCP)

The main points made are:-

- That NCP has a negative impact on sustainable natural resource use and is incompatible with Ecologically Sustainable Development;
- That NCP is at odds with the development of vibrant, self reliant rural communities;
- That NCP will deliver strategic advantages to our export competitor nations, and disadvantage Australia, under current application;
- That NCP is seriously flawed because it addresses competition in a very narrow focus: competition derived efficiency as the principal answer to obtaining global market share;
- That "comparative advantage" and "competitive advantage" are dealt with inadequately in the application of NCP;
- That efficiency derived competition is part of the answer to meeting global challenges, but only part. It should be relegated to a lower level of activity while institutional weaknesses and "systemic" issues such as mutual support amongst enterprises should be elevated;
- That NCP does not even ensure development of the capabilities required for people and industries to succeed in the competitive environment it advocates.

These points are expanded in the attached papers.

Yours sincerely,

## SUBMISSION

To the Productivity Commission  
from Jock Douglas AO

This submission is supported by two documents, "Re-building Australia through Community Development" and "Caring for the Land?" which make the following points:

- that a prolonged terms of trade decline for primary producers leaves them with reduced ability to exercise sustainable natural resource management options, a situation which is exacerbated by the way National Competition Policy is currently being implemented;
- that National Competition Policy (NCP) impacts negatively on Ecologically Sustainable Development;
- that the way in which NCP is being implemented is having a negative social and environmental impact at community level and is inappropriate for community and regional development.

In addition to the thrust of the attached papers a view on NCP impact on rural industries is given:

### In plain language from a Rural Industry viewpoint

The language of economics is not widely understood, but must be to have relevant discussion. The terms "comparative advantage" and "competitive advantage" are cases in point which need expanding.

An example of comparative advantage is grass fed cattle production. Most other beef exporting nations have severe winters requiring expensive shedding and/or feeding of livestock while Australian cattle continue to open graze on pastures. Hence Australian grass fed beef has a comparative advantage.

European and North American grain production has a comparative advantage over Australian grain which is produced from lower nutrient soils and with extreme rainfall variability. These factors also affect dairy production adversely (comparatively).

Competitive advantage is the quality or attribute of the product or service which gives it a market edge. It is a result of good management, skills, knowledge, innovation, entrepreneurship, knowing what customers value. If comparative advantage and competitive advantage coincide it is likely to be a significant marketing factor.

The definition of "competition" adopted for the National Competition Policy Review is "the striving of two or more persons or organisations against one another for the same or related objects". But development of the infrastructure to produce quality products with competitive advantages comes from *cooperation* between the producers, processors and marketers, rather than *competition*.

National Competition Policy is seriously flawed in that it sees competition in a very narrow focus and *competition derived efficiency* as the answer to obtaining global market share.

The problem is, efficiency does not necessarily produce effectiveness. According to the Australian Productivity Council, only 20% to 30% of potential productivity gains come from efficiency. The greatest gains come from quality, which requires knowing and producing what customers value; and flexibility, which is the ability to quickly re-focus on changing customer needs. This requires people who are skilled managers, innovators and entrepreneurs.

Here is where NCP is going badly wrong:

Institutions which have given Australian commodities a competitive advantage through cooperative action, like the Australian Wheat Board, are set to have their powers broken down in the name of efficiency. The quality of Australian wheat, with the ability to maintain uniform high quality standards, plus good customer services by the Wheat Board, has given a competitive advantage against the north American and European comparative production advantage. There is little wonder that the US is calling for the breakdown of the institutions which cooperatively deliver Australia its competitive advantage. The same situation applies for dairying. NCP will deliver strategic advantages to our export competitor nations, and disadvantage Australia, if this "market efficiency" line continues.

Efficiency derived competition is part of the answer to meeting global challenges, but only part. It should be relegated to a lower level of activity while institutional weaknesses and "systemic" issues such as mutual support amongst enterprises should be elevated.

The bottom line is that producers need improved returns if they are to adopt sustainable farming systems and reduce pressure on the resource base. Current NCP implementation is increasing natural resource pressure, rather than reducing it.

CARING FOR THE LAND?  
by Jock Douglas AO  
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(Paper/address written for the National Landcare Conference, session "Economic policy and practice in a rural environment" Adelaide September 1997)

Question : Can "rationalist" competitive market theory be compatibly combined with ecologically sustainable development?

Answer : It would be like putting Genghis Khan and Helen of Troy in the same bedroom and expecting him to spend the night learning classical guitar and Greek.

What is this competitive market theory?

"The assumptions underlying competitive market theory include the belief in human reason and science, in the benefits of technology, in the ability of market forces to determine resource allocations, in the socially benevolent nature of the individual and in the disruptive nature of the state in economic affairs."

It seems a rational theory doesn't it? That quote is from a paper titled *Markets and the Rural Crisis: Implications for Sustainable Land Management* by David Vivian. The competitive market theory as described sounds reasonable. But then, we have seen supposedly great economic theory before. At the opposite end of spectrum there is communism and the Marxist theory. The American Will Rogers said, "Communism is like Prohibition, it's a good idea but it won't work." Communism has been described as a race where all the competitors come first but there are no prizes. Whereas competition policy or Hilmerism could be described as a race where the winners take all and the losers get suitably inscribed headstones. It's another harsh economic theory which will fail because of its singular dimension. It won't last in its present form because the social cost will be too great and the environment is ignored.

In his paper David Vivian has this to say about the structural causes of the farm problem :-

"The policy elites who have advocated economic policies based on competitive market theory have attempted to solve the structural problems in agriculture through efficiency and productivity solutions. However, this has promoted over-production which, in turn, has had to be sold on uncompetitive and oversupplied world markets. This is not consistent with the economic realities of world agricultural markets, nor with the long term interests of the resource base, where increased demands are more likely to translate into resource degradation than resource maintenance and renewal."

So where are we headed?

After spending much of my life travelling Queensland and Australia, considering land condition and how landholders make decisions, I am arriving at this view :

- That the increasing rural social difficulties are largely caused by economic policies which are not in tune with the climatic and ecological conditions in which primary production operates;
- That economic policies will succeed in rural Australia only when they are in balance with those ecological and climatic conditions;
- That the halting of degradation of our natural resources, and turning it around, will not be delivered in any meaningful way unless economic policies which have that balance and which place a value on the natural resource base, are designed and delivered.

And I have developed this contention :-

- To achieve a sustainable balance in the interlinked social, ecological and economic dimensions of natural resource management in rural Australia, economic policies must take into account the two controlling factors of extreme climatic variability and our ancient land forms with inherently low nutrient levels. These factors are intrinsic shapers of the Australian continent and its great bio-diversity and will be ignored at the peril of rural policy failure.

Before expanding this contention, let's throw in a quote for economists, in particular, to ponder - from Sheila Donaldson of NSW Landcare :-

"Cheap food and fibre is the very reason that land degradation is accelerating, because prices paid for most agricultural products in Australia do not meet the full costs of production, i.e. fixed and variable costs and preservation of the resource base."

Urban Australia and the urban world is deliberately shielded from the reality of what happens in the production and transfer of their food and fibre from the land to the shop-front point of sale. Consumers are unaware of the long term consequences of the current economic manipulation to give cheap prices, as compared with true costs.

### Let's look at our recent history

European Australians have been in a rush to develop this vast continent over the past 200 years; (and that is recent). We did it using the best technology and information available at any time. We brought new farming systems and animals and we modified local and regional ecosystems and habitats to be very productive. We were perhaps fortunate to encounter unusually favourable climatic conditions and our grazing animals reaped the early benefit of a gloriously diverse range of pasture plants. We were largely unaware of the long term effects of changed ecosystems. The pioneering spirit to develop, to subdue and transform landscapes was the national ethic and was encouraged. Government policy promoted and required the clearing of trees for crops and pastures. The whole nation was in fast forward development mode.

It's now apparent that we have made some serious mistakes along the way. The rising water tables and salinity problems, resulting from vegetation removal across southern Australia, are ticking away like time bombs ; exploding, (in geological time scales), to the surface, to sterilise huge tracts of country. In the State I know best, Queensland, those problems are not so obvious, but erosion, pasture decline and woody weed invasion stand out. And everywhere there is loss of bio-diversity.

But during the 1980's a turning point in our history was reached. Landholders themselves realised that in many cases the resource base of soil, water and ecosystems was declining, and decided to collectively halt that decline.

And so, an immense attitudinal change is occurring. The initial national ethos of a rush to develop is now slowing to a more considered, more caring approach to land management. Farming and grazing systems are being critically appraised locally and often dramatically changed. Nature conservation is being adopted as a farm practice. People are doing this in groups across the continent and their actions are supported by Government programs. It's this thing of ours called Landcare.

(Former) National Landcare Advisory Committee Chairman, Dr Joe Baker described Landcare in these words :

"Landcare is a concept, an ethic, a way of life, originally individually held, now held by groups."

Julian Cribb, then science and technology writer for the Australian wrote this :  
"We have farmers who are, on the whole, efficient by world standards and who are global leaders in adoption of sustainable farming practices and new technologies; who practice a creed, revolutionary by world standards, in which whole communities work together to save and improve their environment - a creed called Landcare."

Professor Brian Roberts wrote these challenging lines, which are pertinent to sustainable development :-

"Our education system has had little effect in reining in the technological imperative which says 'because we can, we do'. Our ability to intervene in natural processes and our newfound desire to improve on nature have given technologists free rein, as if 'can = must and able = ought'. Teaching ethical values requires the wisdom to distinguish which of our new abilities will contribute to a sustainable future - in essence to replace cleverness with wisdom."

But there is a problem with the Landcare ethos. Landcare is in trouble because it is difficult, if not impossible, to put into practice, on the scale which is

required, under the economic conditions which apply. There is widespread frustration resulting in burnout among landcare leaders and groups deriving from that inability:- to change to sustainable systems of management because economic conditions do not allow.

As de Kooning said, "The problem with being poor is that it takes up all of your time". And a similar line from Sol Saks, "There's plenty of rest for the wicked. It's the oppressed who have to keep on dancing."

And you'll have heard this line, "It's hard to be green when you're in the red."

Jim Woodhill, from Greening Australia, in an important paper titled 'Beyond the Landcare Paradox' wrote, "Overall, many landholders seem caught between an emotional desire to care for the land and the harsh reality of operating in an economic environment that provides little incentive to do so. Until society finds a way to pay the real cost of sustainable natural resources management, action will remain tokenistic relative to the scale of the problem."

It seems to me that supply/demand economic policies of industrialised nations are at odds with achieving sustainable societies.

There is a rising groundswell of concern among the landcare/landholder constituency that the "rational" economic direction in general, (and in particular as taken to its extreme under Hilmer derived competition policy), is seriously flawed in natural resources management theory; will not deliver the farm enterprise viability necessary for sustainable management; or worse, may even detract from it.

The economy always combines a mix of intervention and free market levers. The current Australian direction is to increasingly impose free market mechanisms and to abandon support or intervention. This increasingly severe "dry", single line economic path is apparently supported by mainstream political parties yet has never been exposed to public scrutiny or debate. There has been policy development in a vacuum of public and political understanding of the ramifications. Certainly, the effect of competition policy on environmental management or caring for the land, has not been canvassed; and once again the people part of the equation has been ignored.

The agricultural sector is already hospitalised from a combination of events : wounds sustained on the non-level battle/playing field of corrupted commodity export markets; the slow haemorrhaging from declining terms of trade for farming; a poor general health background of long term rundown in natural resource condition; and a debilitating recent severe climatic period. The resulting insufficient profitability syndrome curtails adoption of management changes to sustainable farming systems, even though these will return long term dividends. There is very limited ability to set aside land and invest in habitat retention for bio-diversity conservation. Any management change which requires investment for the public good, such as nature conservation set-aside, is beyond the great majority and is confined to the dedicated few.

So, what is the policy doctors' response in the mad-as-hatter's Oz economic asylum? - We opt for counselling; counselling with a large dose of competition policy doctrine to purge us of any imaginable ideological infection or inclination, other than this new, pure, economic theory stating that competition cures all. When suitably cleansed and renewed we will be presumed trained and ready to join in the global economy battleground, with early triumphs in Asia predicted.

The problem is, that it is doubtful in the extreme whether Asian nations, which historically have depended on their trading skills and human resources for economic success, will seriously play games on level fields.

But, let's leave that scene and look at lessons from our ecological history

Here we all are, in this vast, diverse continent, with the vague aim of having a sustainable society. That is a society where the needs of the current generation are met, without detracting from the ability of future generations to be able to meet their needs. But we have racked up some significant debts in getting here.

And these debts are not simply economic, they are also social, cultural and ecological - or overall, environmental.

One of the most significant books I have read is Tim Flannery's recent publication, "The Future Eaters". It describes in wondrous detail the ecological history of Australasia.

Flannery presents an important hypothesis: That there are two major controlling factors in the development of our plants, animals and ecosystems. These are: a dramatic climatic variability resulting from the El Nino, Southern Oscillation (ENSO) effect; and the inherently low nutrient levels of our geologically ancient land forms.

Flannery describes a huge range of plants and animals which have adapted to close down growth and reproduction in extended periods without rain, yet open up to exploit windows of climatic opportunity as these briefly occur.

He also describes a departure from the Darwinian principle of a species' struggle against each other as the main basis of evolution. He postulates that ENSO and poor nutrients have caused a remarkable degree of systematic co-operation to develop intimate relationship between species in Australia, and says "In a sense, it is co-operation rather than competition which has been selected for in many Australian environments."

To give an example within species, Flannery describes a behaviour pattern which is widespread and a characteristic of many Australian birds. It is a group social structure where the young forego the chance for early reproduction in order to help their parents feed their younger brothers and sisters. Elsewhere, this is an extremely rare strategy to the extent that 85% of all species worldwide which exhibit this characteristic are Australian. Flannery says that this is a good example of co-operation rather than competition which can be fostered by difficult environments and suggests that it finds parallels in the adaptation of both aboriginal and non-aboriginal people to Australian conditions, at least in rural Australia. You may be reminded, as I was, of the social dynamics of Landcare.

It is a thought provoking book.

My extension from the Flannery hypothesis is the contention that our rural economic, social, cultural and ecological (farming and grazing) systems must be aligned to be in tune with that same harsh climatic variability and low nutrient background or we will constantly need social support and adjustment after harsh climatic or economic events.

To test that contention it would be logical to assume that problems would first occur where ENSO effects and low nutrient levels coincide. The State of Queensland has the most variable climate in Australia and on earth, or so scientists say, apart from polar regions. One of the lowest nutrient regions which is also ENSO affected, is the mulga region of south west Queensland and north western NSW. Little wonder then, that a major program for the social, environmental and economic rehabilitation of this region has been needed. The first of its kind in Australia, it has community participation and support, is delivered on a regional basis, and is resourced through a Commonwealth, State and community partnership.

But the mulga region may only be the first emerging example of the underlying problem if our natural resource base decline continues, especially where ENSO and economic conditions interact.

So what can we learn from this?

What are the economic, social and environmental challenges?

1. The challenge in the economic policy arena is to design policies which are much more in harmony with the operational environment; policies which encourage farm enterprises to have the same natural resilience for tough conditions, yet the ability to flourish in favourable circumstances. The difficulty will be to design economic instruments which can deliver that and still allow for an acceptable attrition of the inefficient, as would occur naturally.

2. The challenge in the social and cultural arenas lies in co-operation, not competition, between individuals, groups and enterprises. The lesson of Australian birds is significant. The competition imposed by the demands of economic and environmental survival should be sufficient without another arbitrarily imposed layer.

Rural economies are different to industrial or urban economies because they are based on the use of natural resources. This factor has been neglected in economic theory and policy and must be addressed to achieve sustainability.

For rural and natural resource policy development and implementation, participatory democracy is the concept which should be developed. Participatory democracy is "where citizens and communities take a more active role in the policy and political decisions that will affect them. It contrasts with representative democracy where elected representatives and the bureaucracy act on behalf of the wider society with the tendency for the public to be politically apathetic and sceptical and distrustful of the political process."<sup>1</sup>

3. The major challenge for environmental policy lies in bringing it in from the cold of isolation and political ad hocery to the mainstream of policy development.

4. Australia's national challenge is to change from a single line policy approach to combine the three dimensions of economic, social and environmental policy; to see the development of a sustainable society.

#### How do we change the paradigm?

Australia has cast itself in the lead role of the partly written world trade play, "The level playing field for trade in agricultural products". The mood of this artful production has not yet emerged but I suspect that the script will be played as a farce by the US; a drama by the Asian tigers; a comedy by the European trade bloc; yet be a tragedy for the smaller export dependent nations like Australia and New Zealand.

The problem for Australia is that we are resource dependent, yet caught up in this global economy, competition policy, supply/demand economic direction which excludes natural resource impact; a direction where environmental management is added on as a political whim, rather than built in to economic and social policy.

Yet we have some important lessons for the rest of the world about sustainable natural resource management. Other nations' natural resource bases will inevitably run down under population pressure and economic policy exclusion. We arrived there early but others will trend the same way and have the same needs.

For the very reasons that the Australian environment is variable, deficient, diverse and difficult and the Australian economy is world trade dependent, we could write ourselves a new role, a valid role for the world stage. That new script would be about successfully combining economic, social and environmental policy. It may not win immediate critical acclaim among rationalist economists or some corporate multi-nationals, but you could count on world wide public appeal.

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<sup>1</sup>Beyond the Landcare Paradox by Jim Woodhill

# Rebuilding Australia's Strengths through Community Development

by Jock Douglas AO August 1998

## Summary

Australia's rural communities are undergoing a general economic and social decline which began at least two decades ago. The economic dependence on food and fibre commodity production and the fall in prices received for these relative to production costs are the principal causes. People with businesses in rural towns and with primary production based businesses in surrounding districts are equally affected. Rural community decline is not unique to Australia but common to many developed countries. But the problem is exacerbated in Australia because of its production background of severe rainfall variability and comparatively low soil nutrient base.

However this adversity brings with it opportunity as people are driven to search for and skill themselves in new and better ways to improve their products and services, to diversify from main stream commodity production into high value added activities through developing competitive advantage.

Traditional economic strategies have emphasised comparative advantage based on the characteristics of regions. This provided limited scope for high value added, as all producers had similar advantages and found prices bid down to near costs. Creation of competitive advantages (through ongoing economic and enterprise strategies) provides producers with greater market power, as the basis for value added.

It is possible for rural communities to rebuild, albeit with lower populations, but on bases of stronger social\* capital. A change of emphasis is suggested in Government policy: moving on from reliance on narrow project based growth which promotes no social benefit, to an emphasis on building social capital at the community level which can take the lead in wider economic development and benefit. Social and economic development at community level is seen as a necessary strategic positioning to accommodate global change and to benefit from it.

The economic direction of "competition policy" has been implemented but is seen to be flawed. This is because it impacts negatively on sustainable natural resource management, is at odds with the social arrangements and empowerment needed for vibrant, self reliant communities, and does not ensure that the capabilities required to succeed in a competitive environment are created. *Cooperation* is seen as the social arrangement needed for vibrant, self reliant communities to be able to effectively compete. Also, economic policy direction currently dominates the policy arena whereas social, economic and environmental policy streams are seen as interrelated, hence needing to be combined with economic policy.

Community development is fundamental to the halting of rural decline and the rebuilding of rural well-being and strength. Community development should be seen as an ethos or fundamental characteristic of our society rather than a Government program and should be managed accordingly. This approach would have the *principles* of community development incorporated into Government policies and programs through adjustment to delivery of services and to relevant program funding stream eligibility. *Delivery with a defined community focus*, especially in rural areas, is required to achieve the essential aim: empowerment of rural communities to assist them attain self reliance. When (and if) Governments can deliver and link strongly to communities the dissatisfaction factor and negativity currently evident should largely be overcome.

A multi-level implementation initiative is suggested:

1. At the Government level: The Commonwealth and all States would adopt the principles of Community Development and apply these in policies, relevant Departmental funding stream eligibility and program delivery, especially in rural areas. The constraints to rural community economic development should be identified and removed, including modifying competition policy implementation if necessary. It is suggested that, because of the need for inter-departmental coordination, RCD policy and action be managed by prominent citizens with support at high Government level such as the Office of Prime Minister and Office of Premier(s).
2. At the rural community level: Fast track implementation of RCD programs, to active communities which are ready for them, eg. - NEEDS (a community database/employment initiative); deliver a National Training Initiative for the key linkage people and leaders in rural communities; implement rapid improvement of the communication/information interface (Internet availability).
3. At the enterprise, local industry or co-operative level: Follow up with support programs delivered *within rural communities* for those self identified communities ready to move with RCD. The support programs would assist development initiatives which had public benefit as well as private benefit outcomes such as: new job creation, education and skills development. Overall management and funding allocation arrangements could use the Landcare model for a community/Government delivery partnership.

These issues are further developed in the following attachments.

\*The term "social" is taken broadly here and includes "culture".



## Rebuilding Australia's Strengths through Community Development

### A 2020 vision of Australia:

Australia developing on a strong social capital base of knowledge, skills and innovation by vigorous communities whose people have a clear vision of how they want their community to be, who have accepted responsibility for their community's future, are reinventing the resource base of their community, and are embracing change.

### A Description of Community Development<sup>1</sup>

Community development is a series of activities conducted by local people. It is a process where local people can not only create more jobs, income and infrastructure, but also help their community become fundamentally more able to manage change.

The "concrete" benefits of community development such as jobs and infrastructure, come through local people changing attitudes, improving networks, thinking differently about problems and using community assets in new ways. This rethinking and organisation is the basis of community development. Soundly based employment is produced rather than artificially created jobs.

Community development involves not just economic development. It also involves human development : local people building their skills and knowledge; and social development : people interacting more and building trust, confidence and participation. These new attitudes and knowledge, together with greater organisation and wider relationships in the community, underpin economic development.

Community development involves the idea of "development" rather than "growth" which implies "more of the same". Development means new options, diversification, thinking about obvious issues differently and anticipating change. It provides a nett addition to community assets, avoiding the "zero sum" situation where a job created in one place is a job lost in another.

Rural community development engages people in learning and action that helps them make their community more vigorous and "healthy". People in vigorous rural communities have a clear vision of how they want their community to be, accept responsibility for their community's future, reinvent the resource base of their community and embrace change.

### The hallmarks of a vibrant Australian community in 2020 :

- ⇒ Has well skilled, motivated people who identify strongly as a group with a sense of community pride and purpose;
- ⇒ Is strongly networked in achieving community aims;
- ⇒ Is a good place to live with conditions conducive to the personal well-being and development of its people;
- ⇒ Has a highly evolved local knowledge base for enterprise innovation and development;
- ⇒ Is producing and exporting (outside the community) quality goods and services to diverse markets;
- ⇒ Is adding high value to locally produced goods and services;
- ⇒ Has management of Government services and corporate investment which demonstrates the adoption of a community development ethos and application of its principles;
- ⇒ Has a high level of environmental awareness and is managing its natural resources sustainably;
- ⇒ Is economically vigorous and self reliant, being able to adjust rapidly to opportunities or threats;
- ⇒ Is providing rewarding employment opportunities and lifestyles;
- ⇒ Is developing culturally, socially and economically.
- ⇒ Has people with a clear vision of how they want their community to be, who accept responsibility for their community's future, who reinvent the resource base of their community and who embrace change.

### The Principles of Community Development

- Start where people are - the existing concerns of local people form the basis of development initiatives;
- The passion that local people have for things drives action
- Community ownership/involvement;
- Local people establishing a clear vision and mixing action with planning;
- Inclusiveness - diverse sectors of the community are involved;
- "Externals" such as Government Departmental people, being invited in to work *with* people rather than *for* them, or only delivering services to them;
- Governments and corporations adopting an ethos of community development and applying it in their management.
- Leadership, entrepreneurs and altruism;
- Appreciation of the existing capacity of people as well as helping them to build capacity;
- The combination of economic, human and social development;
- "Learning" - changing attitudes;
- "Reframing" - redefining problems and opportunities;
- Not all communities are suited to, or ready for, development activities.

<sup>1</sup> Reference source: Jim Cavaye DPIQ "What is Rural Community Development?".

# Rebuilding Australia's Strength through Community Development

## The Economic Backdrop<sup>2</sup>

- A flaw in the study and practice of economics in today's complex and fast changing world is that economics usually aspires to have the certainty of a physical science. This is inappropriate and often leads to inflexibility and reactive management.
- The lesson from the ecological history of Australia is that cooperation, rather than competition, has been the hallmark of successful species evolution under the harsh conditions of extreme rainfall variability and very low nutrient soils. Economic development has largely been carried on the back of exploitation of the natural resource base while the human resource base has been comparatively unchallenged. Our "lucky" (resource rich) country has caused us to be a lazy nation.
- The definition of "competition" adopted for the National Competition Policy Review is "the striving of two or more persons or organisations against one another for the same or related objects".
- A National Competition Agreement has been reached by all governments to ensure competition in all sectors and resolute implementation of competition policy is predicted to result in billions of dollars of benefits.
- Competition Policy has been developed as the basis of a national strategy with the objective of increased efficiency resulting in improved international competitiveness and trading position. (Efficiency is defined as producing maximum outputs with minimum inputs.)
- However, according to the Australian Productivity Council, only 20% to 30% of potential productivity gains come from efficiency. The greatest gains come from quality, which requires knowing and producing what customers value; and flexibility, which is the ability to quickly re-focus on changing customer needs. This requires people who are skilled managers, innovators and entrepreneurs.
- Competition generated efficiency often leads to company/enterprise *growth* through takeover of the less efficient. However this may not lead to the company/enterprise *development* required for innovation, quality production and operational flexibility. These are the attributes most likely to generate long term employment and community well-being.
- Economic development requires flexibility and speeding the rate at which the whole economy 'learns' to re-arrange itself to suit emerging opportunities and threats. Competition policy as presently implemented is unlikely to deliver that flexibility.
- When environmental effects and the real costs of food production are considered, current capitalism could be described as consumer welfare.
- While a competitive market may be dynamically *efficient* the problem is that it may not be dynamically *effective* without "institutional" capacity support. This would comprise: suitable forms of venture financing; appropriate skills and arrangements in educational institutions; and a pool of skilled managers to support innovation and entrepreneurs.
- Current institutional weaknesses can include: the absence of a capability for sophisticated strategies in business; limited access to market intelligence; limited effective business support for innovation; financial institutions which are oriented towards real estate rather than business; and even inappropriate societal values.
- A basic problem with conventional economics is the failure to deal with 'systemic' issues such as the mutual support amongst enterprises which is crucial to their effectiveness.

## Comparing Australia's economic policy with East Asian economic policy

- \* The Australian definition of competition does not apply in East Asia where systems of vertically integrated persons or organisations are seen as the basic elements which compete, rather than individual persons or organisations. (These systems are termed communitarian.)
- A trap for Western observers is a lack of understanding of the Asian cultural background leading to incorrect assumptions that Asian behaviours/organisations are like Western equivalents. Communitarian societies have evolved with a strong ethos of advancing the position of groups rather than individuals.
- \* In Asia *gaining market power* is itself the major goal, as a means to advance the position of a cultural group. The pursuit of efficiency with the aim of benefiting investors or consumers is secondary. For example Japanese firms pursue market share, rather than profitability, and seek to eliminate their competition.
- \* The Asian market involves commercial relationships built on long term social relationships, rather than arms' length relationships under contract law.
- \* Rather than the Australian custom of assisting industry through regulation and transfer payments, Asian assistance comes through elite leadership in establishing institutional frameworks and accelerating evolution of strategic information flows of a market economy.

## Future direction

Economic policy in Australia may benefit from the lessons of Asia by:

- ◇ Taking account of knowledge and experience as more economically important assets than capital resulting from investment;
- ◇ Redeveloping competition policy implementation to take account of the communitarian market economies of its Asian trading partners;
- ◇ Making *evolutionary economics* into an applied capacity by apolitical involvement in regional and corporate business strategies;
- ◇ Allowing and assisting the principles of a communitarian market economy to apply at a community level.

<sup>2</sup> Reference source: John Craig , Centre for Policy and Development Systems 08/97 "Beyond Competition" paper.