TYPEWRITTEN COPY OF HANDWRITTEN DRAFT SUBMISSION

Robert Caldwell and
Peter MacPhillamy
'Radley"
Forbes NSW 2871

22 March 1999

Gary Samuels
Productivity Commission
PO Box 80
Belconnen ACT 2616

1. Lachlan Valley Water Reforms and M.D.B.C. Cap.

2. Usage in 1994/95 - 420,000 Ml
Usage in 1993/94 - 225,000 Ml
Usage in 1992/93 - 415,000 Ml

3. Licensed allocation total - 650,000 Ml
Sleepers and dozers = 45%

4. D.L.W.C. decided to include sleepers and dozers despite Section 13F of the NSW Water Act giving right to cancel after 3 years of non use.

   Consequence of Cap and inclusion of sleepers:-

   Water rights of existing users diluted by 45% - contrary to M.D.B.C. policy:- rights of existing users would be respected in front of sleepers.

5. D.L.W.C. don't want to give water rights to irrigators. But want water trading?

6. Separation of water rights from land titles will destabilise the irrigation farm. Why would you sink money into on-farm efficiency improvements in future? Does NSW want any irrigation farms?

7. Water pricing and I.P.A.R.T. - very arbitrary.

8. Property rights - water rights.

9. Environmental flows are set to implement Cap. Have little scientific foundation.

10. D.L.W.C. and NSW Government don't care about water rights or paying compensation to existing users.

11. Federal Government is involved via tranche payment and M.D.B.C. (Dept of Agriculture, Fisheries and Forest).

12. Erosion of allocation reliability because of large, unfounded environmental flows
    - was 1/100 years with zero allocation
    - now 30/100 years with zero allocation.

13. Highest value crops demand high reliability yet water reforms are destroying reliability.

14. Current Account deficit 6% +. Can Australia afford to shut down these farms.

15. Lachlan transmission losses vary from 10% to 85% depending on location.

16. Should water be transferable free of losses?

17. To summarise

    NSW and D.L.W.C. have:

    (a) adopted Cap and included sleepers.
    (b) water rights will dissociate licence from farm but will also spoil the incentive to invest in on-farm works;
    (c) will over-price water considering loss of reliability; and
    (d) blame reforms on M.D.B.C. when D.L.W.C. was prime advocate.

18. Hydrology
    - Divert 11% to 19% of resource
    - Evaluating Water Sharing Policies Lachlan will be completed by University of Melbourne in a month (2 years work).
    - varies from year to year - 50,000Ml to 6,000,000Ml

19. M.D.B.C. Hydrology
    - Lachlan done by D.L.W.C.
    - D.L.W.C. hydrology is a joke and tailored to reforms and contains some embarrassing technical flaws.

20. Federal Government has the financial discretion in the impacts on NSW farms. Statements by Senator Hill and Hon Michael Valle fall way short of appropriate policy.

21. I can expand these points and include supporting documents (M.D.B.C., D.L.W.C. etc)

22. Co-author P. MacPhillamy has strong views on level playing fields and will include them and consequent inconsistencies in full submission.

23. We request 10 days to complete full submission.

Yours faithfully

R. Caldwell

Mr Garry Samuels from Peter MacPhillamy (Fax 02 6857 2157 Ph 02 6857 2122)

Included are two articles I though may be of interest. This is my part of initial submission with R Caldwell.

'The Angle' - Forbes 2871

'Redling' - Forbes - 2871

COAG

Deregulation

1 will not work unless everything deregulated
2 Paul Krugman explicit on this
3 Exporters – primary and secondary cannot compete with, Wages not deregulated, Work Cover, payroll tax and other Government charges as they are.

For example how can clothing industry compete with low cost countries that pay very low wages and no Work Cover, no Superannuation, etc.

Cost Recovery

1 With only partial deregulation cost recovery cannot be justified
2 Community has recouped many taxes over the cost of irrigation to the state
3 Why not put tolls on all roads?

Economic 98

USA deficit of export to imports over previous 2 decades = 1.5%
AUST deficit as % of GDP = 6% approx.
This is unsustainable and will not be addressed under present policies.

Maybe a 10% primage duty. This is allowed under World Trade Organisation.

EEC & USA will use any means to protect their own. EEC farm policy costs $18 / week / family; much better and cheaper than pushing them all off to form city slums as Brazil for example.

Water (my knowledge is the Lachlan)

COAG instigated water reforms because of report on salinity. The two major problems are known to be Catchment Dryland Salinity and Carp.

Governments sitting on their hands because of size of problem and cost.

All other initiatives will be overtaken by catchment salinity. All other initiatives will make no difference to salinity and bottom end of river, wetlands, etc. SA will get increasingly saline water.

Biodiversity catch cry wants proper evaluation. 99% of all species that ever existed have vanished.

Professor Patrick Michaels suggests that biotechnology is the way to go.

Why preserve a lot of native fauna that is obviously inferior to present species

Page 13 Colin Teese - Home Consumption Price for wheat –
Started after war approx 10/- per bushel Aust
30/- per bushel world price
and as time went on world prices less than Australian home consumption.

ECONOMICS

Doing business with the world: then and now

Colin Teese was Deputy Secretary of the Department of Trade and Australia's representative at the General Agreement on Tariffs and Trade (GATT). He was the keynote speaker at the National Civic Council's 1999 National Conference held earlier this month at the University of Melbourne.

In his address, which follows, Mr Teese explained the realities of international trade which are not understood by economic ideologues.

Let me begin with a quote. "If the human race wishes to have a prolonged and indefinite period of material prosperity, they have only got to behave in a peaceful and helpful way towards one another, and science will do for them all they wish and more than they can dream."

Finding this text involved my step-daughter. She had given me a small booklet entitled *Quotable Churchill*, which probably ranks as my most unusual present this recently past Christmas.

My little booklet does not date Churchill's remarks. I would surmise that they were made at or around the end of World War Two — and most certainly before the disillusionment of the Cold War had settled over the world.

I have to concede that they hardly could be ranked among Churchill's most elegant observations, but I was struck by the pertinence of the remarks some 50 years on — and, more particularly, by their relevance to the subject matter of my address.

Churchill's remarks more than half a century later provide a timely contradiction of the idea that the world revolves around economics. Equally, they help us bury the notion, currently extant, that prosperity is absolutely dependent upon the entire world embracing one economic model.

Churchill was more subtle. Any durable form of prosperity crucially depended upon working together, co-operatively, towards social and political ends. That, he argued, would permit scientific endeavour fully to engage in the business of advancing human welfare. He was almost certainly right — with perhaps this single qualification. If he were speaking today, he would allow that the word science embraced technology.

McEwen

And in case I am accused of distortion, let me take a moment to place the Churchillian comment in context. Almost certainly, his remarks were made in the knowledge that the framework of the UN was already in place. Nations were sick of fighting each other and were turning to the better alternative — peaceful co-operation.

To help this process along, a multitude of specialist agencies, driven by the same philosophy, were springing up beneath the UN umbrella.

Three of these agencies would be charged, specifically, with maintaining the framework within which world economic relations would be conducted.

I don't want to dwell on the functions of the International Monetary Fund and the World Bank. I would, however, like to say a word about the third agency, the General Agreement on Tariffs and Trade (GATT), with which I was personally involved.

In some ways GATT was the most important of all, because its carefully negotiated charter defined the broad framework for the conduct of international trade.

Not, I hasten to add, as an end in itself — still less, to celebrate the virtues of a singular form of economic orthodoxy. But to promote broader social ends.

Explicitly, the GATT was charged with the task of raising living standards and promoting full employment.

And, whatever may have been asserted more recently by trade economists in Australia and elsewhere, the GATT was never intended to be the world's guiding light towards so-called free trade. The words "free trade" or even "freer trade" are nowhere to be seen in the GATT agreement.

With good reason. Any attempt to include such ideas, could have brought the agreement unstuck. The world had just been rescued from a long and disastrous depression by a war costing twenty to thirty million lives. Economic ideas having their origins in the thirties were tarnished goods as far as governments and peoples were concerned.

What they wanted, and got, from GATT was a set of rules — more correctly guidelines — which would encourage governments to adopt and maintain mutually beneficial trade policies.

Governments agreed, wherever possible, to avoid the use of trade restrictive measures. And, where these could not be avoided, to work constructively with trading partners to minimise their effect, in line with Churchill's idea of co-operation.

And, remember, GATT negotiations were conducted not by economists, but by political leaders, or civil servants acting on their instructions.

Following the establishment of the GATT in Geneva, permanent representatives of the member countries were also civil servants. Effectively, they were commercial diplomats. Few, if any, were trained in economics.

They were, however, skilled negotiators, capable of working out solutions to trade disputes in ways which would preserve their own country's national interest within the framework of the GATT system. This was perfectly consistent with the prevailing view of public administration that policy making should be kept at arms length from specialist advice.

There are compelling reasons why this should be so. All specialist advice is necessarily, and quite properly, delivered from a narrow perspective — what is the best outcome for the specialist interest. In their own cause, economists call this the 'first best' solution — but it applies with equal force to other specialist advice.

It follows that a collection of specialists, locked into 'first best' solutions, could never develop workable policies unless their special interests happened to coincide in every respect, which almost never happens.

Well-ordered governments, not merely of the Westminster, or even of the democratic variety, have traditionally relied upon career civil servants to distill a workable policy from the various 'first best' advice coming forward from specialists.

Their task has never been easy. A realistic outcome always entails chipping away at the various 'first bests' in pursuit of some workable compromise.

The compromise outcome invariably pleases no-one. But it does give due weight to the views of various divergent interest groups.

It was the need to proceed on the basis of reliable, impartial policy advice, that caused most governments, until recently, to recruit and maintain permanent staff for this purpose. At the centre of this tradition in Australia was the emergence of what we call the public service.

In effect the service is, or — more accurately — was, a pool of publicly funded career officials, whose duty it is — or was — to advise elected politicians on how best to implement their policy programs, and, against the background of the public interest, help them evaluate the policy demands various interest groups placed before government.

The traditional role of the civil servant has been steadily eroded over the last 25 years. Importantly, because economists have persuaded governments that their advice deserved greater status, than that of mere specialists.

They explicitly deny that on a wider view of the national interest, governments have the right to override economic advice. The national interest is always best served by the best economic outcomes.

Moreover, economic advisers insist that governments respond to a singular brand of economic advice.

Interestingly, none of the key elements of current economic orthodoxy — dismantling of industry protection, financial deregulation, and privatisation of government utilities have ever enjoyed popular support. All three were implemented by governments which either did not disclose their intentions (Whitlam in the case of the 25% tariff cut), or explicitly went back on a commitment (Hawke and Keating with financial deregulation, tariff cuts and privatisation).

"Whatever may have been asserted more recently by trade economists in Australia and elsewhere, the GATT was never intended to be the world's guiding light towards so-called free trade. The words 'free trade' or even 'freer trade' are nowhere to be seen in the GATT agreement."

Only Mr Howard, on the eve of an election, baulked at full privatisation of Telstra, in the face of significant adverse public reaction.

Both sides of politics now endorse economic policies that the community does not want, and which are immunised against searching criticism by independent advisors.

It is beyond the scope of this address to examine why the community tolerates this, other than to say that economic advice, especially when dressed up in in its best ideological clothes, is notoriously difficult for laypersons to analyse.

Politicians (and, it must be added, opinion leaders) hold current economic orthodoxy in such awe, that propositions fashioned around it are accepted as fact merely by virtue of being advanced.

Nor do unfavourable outcomes necessarily count as evidence of failure.

When Hawke was about to embark on the first serious bout of tariff-cutting since Whitlam, the then Industries Commission was asked to demonstrate the gains. It used the Orani model of Professor Dixon.

After the first cut on conventional assumptions, the results were so unfavourable they were discarded. Another set of assumptions was fed into the model. On the basis of the gains to GDP which these assumptions generated, Ministers were persuaded to go ahead. These doctored results subsequently became part of the public record.

No wonder governments, relying on economic analysis for advice, have been guilty of implementing bad policy. Whitlam's tariff-cutting wasn't good economic policy making, but it is interesting for other reasons. It was probably the turning point of the protection debate. It was the recognisable moment when economic advice became pre-eminent. And it marked the time when governments began the process of marginalising the public service.

Whitlam's advisors omitted to inform him that industry protection was not a stand-alone structure. Instead, it was part of a large and complex edifice underpinning our society at both the economic and social level. Pulling away parts of it attacked the integrity of the whole.

Why, then, was Whitlam so eager to take the sucker bait on protection? After 23 years of opposition, incoming Labor Ministers were inexperienced and they did not trust the career civil service, in particular, they distrusted the Department of Trade and its so-called McEwenism. McEwen may have departed but his ghost, and its shadow — protectionism — still strode the Trade

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corridors.

Curiously, though, there was nothing leftist in the prevailing brand of economic orthodoxy which Whitlam chose to implement. At precisely the same moment, the same advice was being embraced enthusiastically by Britain's New Right.

They, and the Australian Labor Party were being told the same thing. *There is no other way.* The same one as accepted by Mrs Thatcher. *There is no other way.*

Besides, protection was bad for consumers. It bloated business profits and pushed up the cost of imports.

Would Whitlam's party have allowed him to go ahead if it had been aware of the two immediate and direct adverse affects?

First, unemployment. Australia's post-war policy of population increase was built around a policy of providing well paid permanent jobs for incoming unskilled migrants. Necessarily these were in protected manufacturing industries. With lower protection these were immediately at risk.

Second was revenue effect. In a single stroke the government denied itself access to one quarter of customs collections.

I have not been able to calculate the fall in customs revenue as a proportion of overall collections in 1973, but by 1994 revenues foregone through tariff-cutting were running at $2 billion per annum — or some 6% of total revenue collections. It must have been somewhere around the same figure in 1973.

That wasn't the only fiscal effect. Withdrawing protection caused businesses to collapse. Others were compelled to re-organise in order to survive. Large numbers of employees were made redundant. The process is still working itself out. Mostly, the displaced workers shifted from paid work and PAYE taxpayer status, to welfare recipient.

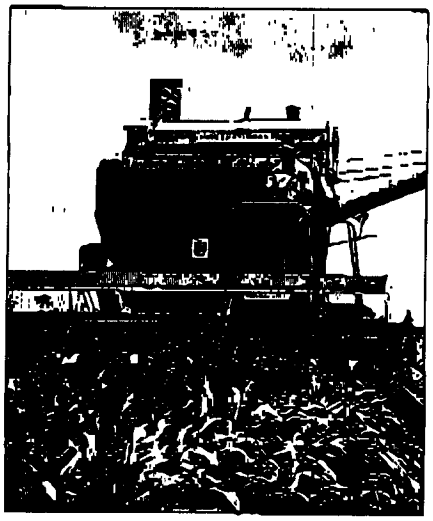
A few lucky ones went into business for themselves. They almost certainly paid less tax, even if their income levels remained unchanged.

The PAYE tax stream and customs revenues were hit at precisely the same moment as the call on unemployment benefits was increased. Is it any wonder we began to run up deficits? The problem of closing them has been with us as a fiscal issue ever since. Yet the deficits arose less from profligate government spending than from policy decisions that shrank the revenue base.

Expenditure has taken the cuts, with most coming out of the hide of community services and infrastructure outlays.

Those having been taken about as far as they can be, a new revenue stream is being developed. Ironically, it aims to capture precisely those gains consumers might have received as a result of lower protection.

It should be recognised, too, that,



despite Mr Fischer's attempts to maintain otherwise, farmers were part of the edifice into which was embedded industry protection. No less than business and the industrial workforce, they were beneficiaries of protection.

A steady and reliable stream of tax from high wages and customs tariff revenues helped fund the two-price structure for farm products. Thus were farmers insulated from the downward price push imposed upon them by international market pressures.

Let that not conceal the fact that the issue of protection was ripe for examination 25 years ago. Protective tariffs no longer worked. They had been part of a system of fixed exchange rate relativities from which the world had moved away.

GATT, whose rule mechanism was geared to tariffs as the protective device, had, *de facto*, recognised this — by turning a blind eye to non-tariff barriers. We needed to come into line.

A more considered and deliberative approach may well have allowed us to discard the bath water and keep the baby. In particular, we would have been obliged to deal with the obvious and immediate problems of unemployment and revenue.

It might be said that further examination would merely have confirmed that the employment and revenue consequences were an inseparable part of removing protection. Perhaps so. Then it was up to the government and its advisors to say so rather than pretend otherwise.

We chose a different path. And economic policy making over the last 20 or so years remains a case study of how not to make policy.

Underlying it all was the marginalising of the public service. Begun by Whitlam. Intensified by Hawke and Keating. The Howard Government has now completed the process. In doing so it has effectively denied itself a permanent source of independent advice.

There is a certain irony in the Howard actions, given his passionate defence of the Constitution in its present form. Whether or not he is aware of the fact, an important element in a Westminster system of government, including ours, is the maintenance of an independent civil service as a source of untainted policy advice.

A government dominating both the administrative and legislative processes can hardly do without it. Howard's most distinguished Liberal predecessor, Robert Menzies, never lost sight of this fact.

Is there prospect for something better on the policy making horizon? I think not.

My pessimism was confirmed in an article in a recent *Australian Financial Review* in which Geoffrey Wheatcroft observed that the Right had won politically, and the Left culturally. He went on to contend that 1998 illustrated that the

Continued at bottom of next page

DOCUMENTATION

World economy holds more surprises: experts

The ABC's premier current affairs program *Lateline* recently hosted a debate on the state of the world economy with three leading observers: **Jeffrey Sachs**, a Harvard economist and one-time advocate of "shock therapy" for the newly-emerging economies of Eastern Europe; **Ken Courtis**, Chief Global Economist for Deutsche Bank; and **Daniel Yergin** analyst and author of the recent bestseller, *The Commanding Heights*. The following extracts from the discussion suggest that the world economy over the next few years holds more surprises like the Russian and Brazilian currency meltdowns.

Lateline: I'd like to begin by asking each of you to respond briefly to the proposition that there's been a soft landing for the world economy after the series of shocks that began with the Asian crisis. First to you, Jeffrey Sachs.

JS: Well, I guess the question of soft-landing is depends where you are. If you are a Russian or a Brazilian or an Indonesian or a Thai or Korean, I wouldn't say it's been very soft. It's been very hard. If you are in Europe or the United States or Australia, I think it does look like a relatively soft landing but still with some bumps to go and some risks ahead. So in general we have the developing world in quite deep crisis and the developed w d continuing to enjoy economic growth. How sustainable that incredible divergence is still remains to be seen.

Lateline: Is that how you see it Ken Courtis?

KC: Well, I think that in the months of September/October we came very close to a meltdown globally, and in the meantime the most incredible efforts were undertaken to reflate the world economy if you take the interest rate cuts of the UK and Denmark. At the end of last week we had 79 central bank interest rate cuts since October 8, 1998. That's one a day. The Japanese have committed three-quarters of a trillion dollars to try to get their economy moving. I suspect that Europe and America will be led to tax cuts this year.

So rather than resolving the problems that are still out there for the world's economy I would say that the threat of a bear market is in remission for a while. We're probably going to have a pretty good year ahead of us and even a good year for the emerging markets compared to what they had last year. But I think there still have to be major problems that have to be addressed.

Lateline: And what about you, Daniel Yergin? Would you concur with those two viewpoints?

DY: So far, the US economy still looks like it's on a booster taking off, looking at how it did in the last quarter. But I generally agree with what both Ken and Jeff have said and I think that the kind of panic that had gripped the world capital markets has been allayed. You can see that at Davos where instead of discussions about new international architectures, there's kind of a cooling of that discussion.

Lateline: It seems, though, that the world is totally reliant on one engine of growth — the booming US economy. As good as it looks, though, aren't there serious underlying problems in the US at the moment, Ken Courtis?

KC: That's right, and the turbo charger of the US economy is the consumer. And the consumer, since last summer, has been spending more than he/she has been earning so the gap between what they're spending and what they're earning has been filled by the increase in wealth people are getting from the rising stock market. So in a sense you could say that the growth centre of the world

Australian trade continued from previous page

twin problems of the age — the brutality of the Right and the dishonesty of the Left.

He was making these remarks in the context of attitudes in the US towards President Clinton's morality. But they can apply equally in a broader context.

We may assume Wheatcroft's concerns were the brutality of the Right's economic agenda and the Left's capacity for the selective application of moral outrage.

Wheatcroft's brutal Right seems comfortable with policies which champion the virtue of individuals maximising their personal utility. For my part, I regard this attitude as having marginalised morality. And, like Wheatcroft, I do not look to the Left for comfort.

Speaking personally, though, I think it might have been better for the Left to have won politically, and the Right culturally. Better still, though, if neither of them had won outright. But if, instead, the balance between them had been struck at the point of less brutality, more honesty.

We have had that before, and there is no reason why we cannot have it again. But I suspect the present arrangements, which have such widespread support among the influential, may have to fail much more conspicuously before we can expect change. When and if that happens, we will at last be able to talk honestly about reform.

N W

Struggle for A

ANDREW ROSS argues that it is suicidal for this country to continue down the road towards a level playing field that does not exist.

THE free-trade/economic rationalist policy of tariff elimination is a prescription for the destruction of secondary industry, and not the formula for an efficient restructuring. The international trading world has never believed in free trade, and connives to create "unlevel playing fields".

The first industrial power was Britain. It embraced free trade after it had mastered all economic rivals. Free trade always favours the domi[illegible] industrial economies because it gi[illegible]s them more market access through which to exploit their advantages in economies of scale, superior technology, and dominance in transportation. It also allows unfair trading practices, such as dumping goods at below cost, in order to wipe out local industries in other economies. British supremacy lasted until the 1890s when Germany, France and the USA industrialised behind high tariff barriers. They sought new markets in the unindustrialised world, which included Australia.

The new international competition should have resulted in lower prices for Australian consumers. Indeed, prices did drop in the initial competition between suppliers; but then the relative strengths and weaknesses of the competitors were established and a stable market share gained. At this point, further competition was illogical and international [illegible] liers colluded in raising prices once more.

For example, in the early 20th Century, Australia's most important export was wool. British and US companies made all the sheep shearing gear and, by acting in collusion, they succeeded in increasing prices to two to three times the reasonable level.

These situations became worse when a market monopoly was gained. Nobels of Britain achieved this in mining explosives. Protected by cartel agreements with German, French and USA chemical firms, Nobels raised its prices, disregarding Australian miners.

This price manipulation stopped when a locally based industry emerged. Thus the price-fixing of British and US shearing machinery companies collapsed in 1935 when the Small Arms Factory at Lithgow broke into the market. Similarly, the price exploitation by Nobels stopped when the Defence Explosives Factory threatened to enter the market.

International companies understood the threat of local industries. They eliminated them by dumping, and then raised prices once more.

Australia's first significant secondary industries emerged between 1905 and 1909. They were destroyed by unfair trading practices.

During World War I, international competition ceased and several industrial sectors formed. In 1920, international manufacturers returned to destroy these industries in the usual way. But this time the Australian government copied other industrial powers and imposed high tariffs.

The general tariff was applied to protect existing industries and was meant to take into account Australia's special costs such as a generous basic wage, an advanced system of industrial health, and a poor Australian transportation system.

Alongside the general tariff was an anti-dumping tariff which could be applied, at short notice, to penalise international companies engaged in unfair trading practices. Suspected dumpers had to prove their innocence. Australia no longer follows this policy and unfair trading can be practised for months.

Continual attacks over the next 20 years saw the general tariff increased many times. But international competitive pressure remained because of the quality and low price of many international products.

Lyons' pressure protected Australians

During the 1920s and 1930s, state and federal governments ran a very powerful "Buy Australian" campaign to encourage everyone to support local industry. They even gave local companies 10 to 20 per cent preference over foreign suppliers, and offered free technical assistance from utilities such as railway and electricity authorities and government laboratories. Today the "Buy Australian" campaign is run on a tiny budget by private individuals. All levels of government buy overseas, even though the goods can be made locally.

In the early 1930s, a chronic problem with balance of payments on current account forced the Lyons Government to create the missing industrial sectors in the economy, in order to cut imports.

Lyons sponsored a combine of local companies for modern aircraft production in Australia. The dominant exporters were displaced because their products were poorly suited to Australia, and expensive. From 1936, a powerful and technically capable local aircraft industry emerged.

Following similar methods, Lyons forced the giant Imperial Chemical Industries of Britain to complete the heavy chemicals industry, or face displacement from the Australian market by a local combine. ICI complied. The American-dominated local car industry also gave in to similar pressure. Hitherto it had only made car bodies, everything else being imported from the United States. But the threat of a government-led local consortium made the Americans supporters of complete local car production which was achieved in 1948 with the Holden.

These actions show the effectiveness of a central authority in marshalling the disparate scientific, technological and industrial elements of a fragmented economy, to create new, advanced local industry.

In 1945, the Chifley Government concluded that low prices for primary industry exports would create new problems with the balance on current account. If Australia were to create millions of new jobs and maintain its high standard of living, particularly for post-war immigrants, it had to be through the expansion of Australian secondary industry into exports.

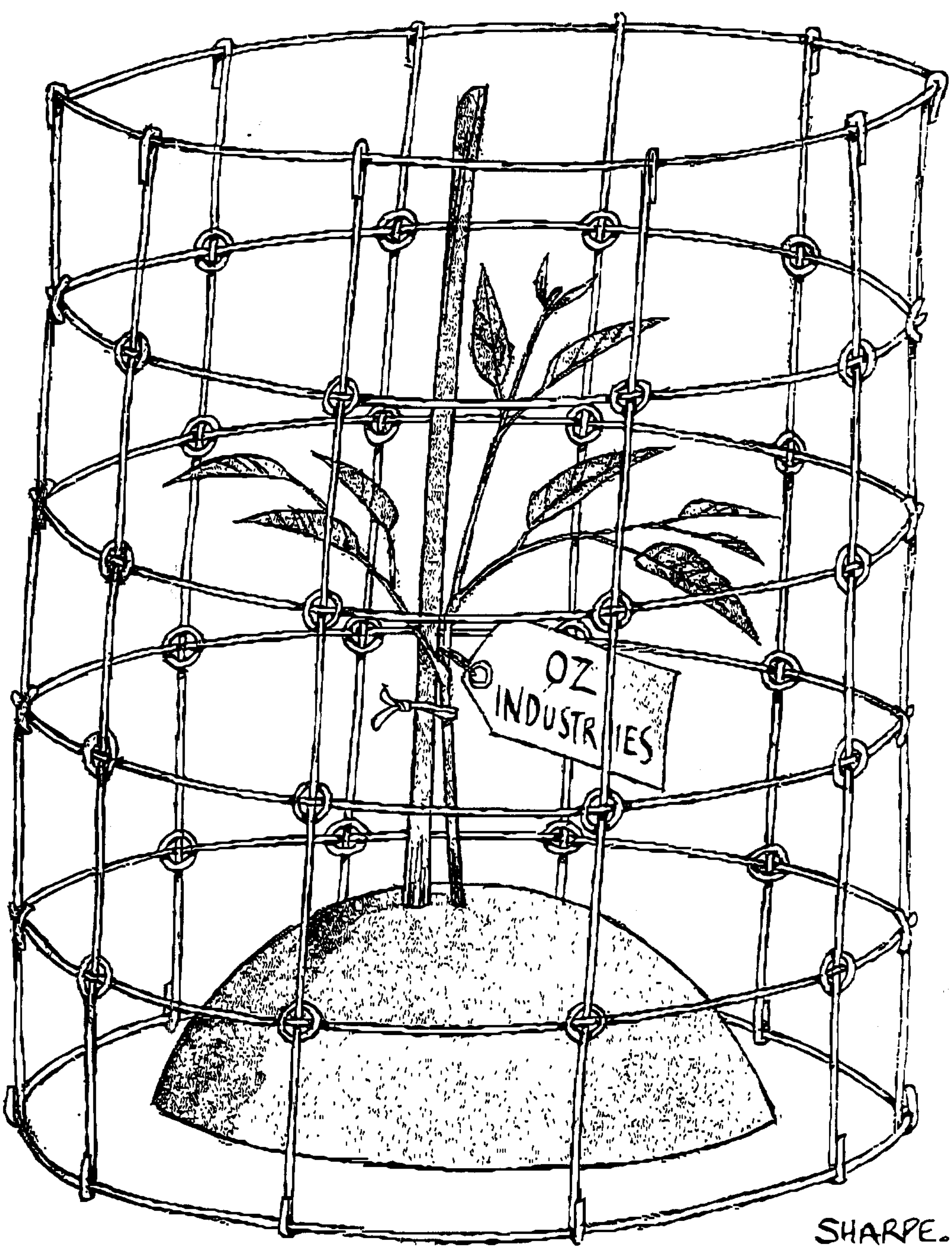
However, the value of Australian primary industry exports rose. Australia's problems with balance on current account disappeared. It was within this context that the new government of R. G. Menzies decided that it should raise tariffs and progressively exclude all imports, allowing Australian local industry to supply the entire domestic market, instead of exporting.

But this did not promote efficient local industry. The Australian population was small. Great distances between major population centres and poor transport systems, discouraged manufacturers in one state from competing with those in another. Unlike the major economic powers, Australia could only achieve reasonable manufacturing efficiency through international trading competition.

This was realised by Australian governments in the late 1970s, when the primary products boom had ended. New problems with the balance on current account meant Australia's now-inefficient secondary industry had to redeem the situation by exporting.

This coincided with increased interest by economists in free trade blocks, such as the European Common Market. But it has been simplistic to conclude that Australia

ustralian industry



must remove all tariffs and join a free-trade bloc. The bloc Australia is joining includes major economic powers and large semi-industrialised nations. Australia sits between such economics, and is attacked from both sides.

Tariff elimination allows the major economic powers to wipe out Australia's advanced industries through superior economies of scale. and unfair trading practices. Australia's simpler industries such as clothing and shoe manufacture are also wiped out because they are expected to pay reasonable wages, provide superannuation, preserve the environment, and many more things. The large semi-industrialised economies pay none of these imposts. Australia has fought off economic attacks for almost 60 years, and a tariff regime has been the main means of creating a "level playing field" within Australia.

Many secondary industries are already disappearing because of reduced tariff protection. This is the main reason for Australia's chronic unemployment (about 9 per cent).

The economic rationalists' solution is the concept of "niche export industries" where Australia will supply specialised aspects of advanced world markets. However, good manufacturing ideas are realised only if technical support and manufacturing capability is present.

The disappearance of whole sectors such as heavy engineering, unbalances the industrial infrastructure prejudicing the emergence of niche export industries. Nor will Australia have the capability to expand the production of defence equipment in an emergency.

FIRST, it is most unlikely that the regional free-trade bloc will form in anything like the European model because of huge cultural and economic differences.

We should remain involved but not committed. The current commitment to drop all tariffs 10 years ahead of most of the other members of the bloc will allow all of Australian secondary industry to be eliminated.

Secondly, adequate tariff protection should be extended to Australian secondary industry, but not to the level where all international competitive pressure is removed. Australia needs such pressure to maintain an efficient industry.

But we need tariffs to establish level playing fields in Australia. We also need at least one significant local manufacturer in all major industrial sectors to counter price manipulation by international companies. This is also required for a balanced economy for an expandable defence-production capability, and the development of niche export industries.

Thirdly, the Australian Government should take the lead, like the governments of Japan, South Korea and Taiwan, in organising the new-age industries, and create the necessary combinations of manufacturers and research establishments.

Small industrial economies cannot rely wholly on market forces for these developments. The reason Australia completely industrialised was that Prime Minister Lyons was courageous enough to provide the leadership required.

Lastly we have to return to the government-led "Buy Australian" campaigns of earlier this century. In the past, Australians have bought more expensive local products, if they were of good quality. The impact on both the rural and manufacturing sectors will be considerable, and will significantly reduce unemployment.

Dr Ross, a political scientist and freelance consultant, is the author of Armed and Ready: The Industrial Development and Defence of Australia 1900-1945, published by Turton and Armstrong, Sydney