

VICTORIAN BRANCH



ECONOMIC SOCIETY  
OF AUSTRALIA

# ENGAGING WITH THE WORLD

12<sup>th</sup> Stan Kelly Memorial Lecture

Delivered by

Lindsay Tanner  
Federal Member for Melbourne  
Shadow Minister for Finance

Thursday 30 September 1999

Hilton Hotel Melbourne

## Introduction

*'the desirability of maintaining free the channels of trade throughout the world'*

This quote, taken from the endowment for the Stan Kelly Memorial Fund, provides the theme for the Stan Kelly Memorial Lecture, held every second year. The lecture is funded from an endowment established by Mr Bert Kelly, former member of the Commonwealth Parliament and retired farmer, in memory of his late father, William Stanley Kelly.

William Stanley Kelly (OBE), or Stan, was a South Australian farmer and life long champion of free trade. He was a member of the Commonwealth Tariff Board from 1929 to 1939, advisor to the Commonwealth Prices Commissioner from 1942 to 1948. He chaired the Joint Industry Advisory Authority from 1951 to 1953 and was a member of the Consultative Committee on Import Policy from 1952 to 1960. Stan Kelly held strong views on tariffs, and voiced them at time when it was not popular to question Australia's policy of high tariff protection for industry. Bert Kelly continued his father's campaign to educate society on the impact of industry protection on the economy.

The 1999 lecture, presented by Lindsay Tanner, Federal Member for Melbourne and Shadow Minister for Finance, had as its theme 'Engaging with the world'. Lindsay Tanner has held the Federal seat of Melbourne for the ALP since 1993. Previously he was Victorian State Secretary of the Federated Clerks Union. He has written extensively on economic issues and is the author of *Open Australia* (1999), *The Last Battle* (1996) and (with Peter Russ) of *The Politics of Pollution* (1978).

The lecture has been presented in the past by: Sir John Crawford (the first lecture in 1977); J. Uhrig; John Stone; R. Johnston; the Rt Hon. Robert Hawke; J. McDonnell; Sir Leslie Melville; Ian McLachlan; Professor Ross Gamaut; Tony Cole and Alan Wood.

The council of the Economic Society of Australia (Victorian Branch) expresses its gratitude to Lindsay Tanner for his willingness to prepare and deliver the lecture.

Robert Kerr

(President 1999)

Economic Society of Australia (Victorian Branch)

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## Engaging with the world

I am honoured to have been invited to deliver the Stan Kelly Memorial Lecture, and I sincerely thank the Economic Society for giving me this opportunity to express my views on matters of fundamental importance to Australia.

Stan Kelly was a member of the Tariff Board from 1929 to 1939, and an adviser to the Prices Commission during the Second World War. He was a farmer, and served in the First World War, and was wounded at Villers Bretonneux. This memorial lecture which honours his memory was initiated by his son Bert Kelly, former Member for Wakefield in the House of Representatives. Gough Whitlam once said of Bert Kelly that 'no private member has had as much influence in changing a major policy of the major parties'. He was referring of course to trade and tariff policy.

I suspect that I may be the most unlikely person ever to deliver this memorial lecture. As a former trade union official and member of the Victorian ALP Left I come from the very heartland of traditional Australian protectionism. However, as a union official I represented workers in both protected and unprotected industries, and I have

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always adhered to an internationalist outlook. Whatever the merits of past protectionist strategies, contemporary Australia has no choice but to economically engage with the rest of the world.

The effective rate of assistance to Australian manufacturing has fallen from over 35 per cent in 1968-69 to 8 per cent in 1995-96, and it will reach 5 per cent in 2000-01.<sup>1</sup> Between 1985-86 and 1996-97, total manufacturing employment fell from 1,128,800 to 1,121,200, while total employment rose from 6,849,600 to 8,461,300.<sup>2</sup> Manufacturing employment was 1,230,000 in 1966, so this decline predates the tariff reductions of the 1980s.<sup>3</sup>

Since the mid-1980s the proportion of Australians employed in manufacturing has fallen from 16.5 per cent to 12.5 per cent.<sup>4</sup> Output has grown, but total employment has fallen because productivity growth has exceeded output growth.<sup>5</sup> In fact manufacturing output growth has exceeded that in agriculture, electricity, gas and water, and matched that in mining, transport and

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<sup>1</sup> Productivity Commission 1996, *The Changing of Australian Manufacturing*, Canberra, p. 73.

<sup>2</sup> ABS, PC Ausstats.

<sup>3</sup> Productivity Commission, op.cit., p. 19.

<sup>4</sup> ABS, OC Ausstats.

<sup>5</sup> Allen Consulting Group 1997, *Winning Companies and Jobs*, Melbourne, p. 1.

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storage. Yet growth in most categories of services has dramatically outstripped growth in the traditional industrial economy.<sup>6</sup>

The statistical picture of Australian manufacturing over the past 15 years is quite mixed. Total manufacturing employment in 1998-99 was almost exactly the same as it was in 1991-92, suggesting that since the recession the pattern of aggregate decline in manufacturing employment has ended.<sup>7</sup> The average annual growth rate of manufacturing GDP between 1986 and 1997 was 2.06 per cent, significantly higher than the 1.63 per cent average between 1975 and 1985.<sup>8</sup> From 1984-85 to 1994-95, the percentage of Australia's manufacturing output which is exported rose from 16 per cent to 25 per cent, while manufactured imports increased from 26 per cent to 35 per cent of total sales.<sup>9</sup> The proportion of Australia's total import bill attributed to manufactured products has only increased marginally since 1986-87.<sup>10</sup> Even the widening of the trade deficit between manufactured imports and exports has been a little illusory. Manufactured exports grew by 9 per cent per annum between 1986

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<sup>6</sup> Productivity Commission, op. cit., p. 19.

<sup>7</sup> ABS, PC Ausstats.

<sup>8</sup> Department of Industry Science and Technology and Australian National University 1998, *An Analysis of the Changes in Australia's Industrial Structure*, Canberra, p. 5.

<sup>9</sup> Productivity Commission, op. cit., p. xiii.

<sup>10</sup> DIST/ANU, op. cit., p. 19.

and 1996, whereas imports only grew by 6.8 per cent. Because the deficit was already large, these growth rates have actually widened the aggregate deficit, but this effect should disappear by 2006, leading to a diminishing deficit thereafter.<sup>11</sup> Most importantly, over that period the percentage of goods exports contributed by elaborately transformed manufactures has increased by 11 per cent to 24 per cent.<sup>12</sup> There are clear indications that Australia's growing export manufacturing base is increasingly characterised by high-skilled, well-paid and mostly full-time jobs.<sup>13</sup>

The negative impact of tariff cuts on substantial sections of manufacturing cannot be denied, the most obvious example being the textile, clothing and footwear sector.<sup>14</sup>

However, the above data makes it clear that the picture is a great deal more complex than the popularly held view that Australian manufacturing has been decimated by tariff cuts.

<sup>11</sup> Productivity Commission, *op. cit.*, p. 59.

<sup>12</sup> ABS.

<sup>13</sup> Allen Consulting, *op. cit.*, p. 1.

<sup>14</sup> The textile, clothing and footwear sector was the only sector of the Australian economy to experience negative growth between 1987 and 1997, DIST and ANU, *op. cit.*, p. 7.

Several other factors must be taken into account in any analysis of the effect on manufacturing of the opening up of the Australian economy.

Between 1984 and 1994, the trade-weighted value of the Australian dollar fell by 30 per cent.<sup>15</sup> Although this did not necessarily translate into a 30 per cent increase in price competitiveness for Australian manufacturing, it clearly reduced the impact of tariff cuts on price differentials between domestically produced and imported products.

The decline in aggregate manufacturing employment over the past 15 years has been exaggerated by the rapid spread of contracting out over that period. Cleaning, canteen, maintenance, data processing and transport services have been contracted out by many companies, leading to the reclassification of workers previously designated as manufacturing workers.<sup>16</sup> When CUB outsourced its truck-driving workforce, manufacturing jobs suddenly became transport jobs. When Toyota set up its data processing as an independent company, contracted to do the same work in the same location, manufacturing workers became employees in the services sector. A 1996 survey

<sup>15</sup> Productivity Commission, *op. cit.*, p. 41.

<sup>16</sup> *ibid.*, p. 23.

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found that 96 per cent of metal and engineering companies had outsourced previously in-house activities such as maintenance.<sup>17</sup> It is impossible to determine the impact of this trend on manufacturing jobs numbers, but it is clearly significant.

Pervasive technological change has also altered the face of Australian manufacturing over this period. Between 1990 and 1996 Ford Australia's payroll more than halved, dropping from 13,800 to 6,500, yet the number of vehicles it produced annually barely changed. In the early 1990s technological change displaced the 40 CUB checkers I represented as a union official, with no impact on total beer production. Amcor's Botany mill doubled its paper production per employee between 1986 and 1996.<sup>18</sup> Although also impossible to measure, it is clear that a substantial proportion of the employment loss and structural adjustment in Australian manufacturing over the past 15 years is attributable to technological change.

This trend reflects a broader pattern which has been apparent in western economies since the 1960s, but has accelerated rapidly in

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<sup>17</sup> Australian Centre for Industrial Relations Research and Training 1999, *Australia at Work: Just Managing?*, Prentice Hall, Sydney, pp. 142-5.

<sup>18</sup> Productivity Commission, op. cit., p. 82, p. 97.

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recent times. Productivity growth in the physical goods economy is outstripping our capacity to consume, and therefore freeing up resources which are feeding the explosive growth in the services sector. Just as the agricultural revolution enabled the industrial revolution to occur, the computer revolution is ensuring the rapid growth of the information and services economy. A fridge today costs one-fifth of the real price of a fridge in the 1960s.<sup>19</sup>

No-one needs five fridges. We have become so productive at making the basic goods needed to sustain human existence that activities once external to the formal economy, such as leisure, sport, entertainment, childcare and aged care, have grown into major industries. As real incomes have risen, demand for such discretionary services has risen accordingly.

Together with the explosion in information technology, these new industries are completely reshaping our economy and production process. Within a few decades, industries like tourism, hospitality and communications have assumed extraordinary prominence in the overall economy. This presents a major challenge to those who see manufacturing as a special sector, inherently more important than

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<sup>19</sup> Mackay H. 1997, *Generations: Baby Boomers, their Parents and their Children*, Macmillan, Sydney, p. 60.

other sectors, just as eighteenth century industrialisation challenged the view of the Physiocrats, who believed that only agricultural production mattered.

As well as changing the role of manufacturing in western economies these structural economic changes have altered the internal profile of the manufacturing sector. Between 1983 and 1993, the percentage of Australian manufacturing jobs in workplaces with fewer than 100 employees increased from 41.9 per cent to 51.8 per cent.<sup>20</sup> In most developed nations over the last two decades, employment in high-technology, high-wage manufacturing has increased, and labour-intensive manufacturing has declined. Significantly, this shift has been much more limited in Australian than elsewhere.<sup>21</sup>

It is impossible to disaggregate the causes of change in the manufacturing sector, but claims that tariff cuts have devastated Australian manufacturing cannot be sustained by the evidence. Claims by individual companies that their difficulties are the result of tariff reductions should be treated carefully. Although there can

<sup>20</sup> ABS.

<sup>21</sup> OECD 1996, *Technology and Industrial Performance*, Paris, pp. 78-80, DIST and ANU, op. cit., pp. 28-9.

be no doubt that a large number of manufacturers have suffered negative effects from tariff cuts other factors such as managerial performance must also be considered before any definitive judgment can be made.

Tariffs are a regressive tax which hurt low income earners most. They inhibit innovation and investment, and encourage inefficiency and fragmentation. They protect some jobs in the short term, but at the expense of other jobs.

In the 1950s and 1960s, Australian industry was protected as much by distance as by tariffs. Our manufacturers faced little competition in our region, it suited American and European manufacturers to establish local plants, and the world was desperate to buy our commodity exports.

Since then things have changed. Industrialisation in our region, increased international travel, the emergence of the internet, and the growth of the information and services economy have undermined the utility of tariff protection. Whatever the merits of high tariffs in the 1960s, rebuilding the tariff wall now would be untenable. The reduction in jobs, economic activity and living standards which would eventuate would be considerable.

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This should not be seen as an argument for accelerating tariff reductions in the two sectors where tariffs remain important, textiles clothing and footwear and vehicle manufacturing. Speeding up the continuing adjustment process in these industries, which have already absorbed the painful effects of enormous structural change, would generate considerable additional pain for fairly limited gain.

Implicit in the pro-tariff position is an assumption that it is extremely difficult to succeed in manufacturing in Australia without substantial protection. In fact, there are numerous success stories in recent manufacturing history which demonstrate that such thinking is simply wrong.<sup>22</sup> The most outstanding of these is the fast ferry industry which with only limited government assistance has grown from virtually nothing to world leadership in little over a decade. In 1988 Incat in Hobart employed 31 people. It now employs 1,100 including 200 apprentices, and provides work for a further 250 employees of various contractors.<sup>23</sup> It is the largest private sector employer in Tasmania, and it has a very limited domestic market.

Kirby Engineering in Sydney has established itself as a world leader in particular machine tool manufacture, exports 95 per cent of its

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<sup>22</sup> See Zuber P. 1999, 'Shattering the myths of manufacturing', *CEDA Bulletin*, July pp. 50-1.

<sup>23</sup> Allen Consulting, *op.cit.*, p. 343.

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production, spends over 5 per cent of its turnover on research and development, and has substantially increased staff.<sup>24</sup> ANCA in Melbourne, a producer of precision grinding machines, has increased exports from \$10 million in 1991-92 to \$70 million in 1997-98, and its staff has grown from 80 to 300 over that period. It spends approximately 10 per cent of revenue on research and development, and is the second largest supplier in the world in its particular market niche.<sup>25</sup>

Australia has many examples of manufacturing companies succeeding in an open, globally exposed economy. Even in the embattled textiles clothing and footwear sector there are numerous companies which have adapted to change and used quality, innovation and design as a basis for export success.

Australia is still hampered by the Southern Hemisphere mentality, an innate sense of inferiority which sees little economic future other than as a commodity producer. The Southern Hemisphere is dominated by commodity countries such as Argentina, Brazil, Chile, New Zealand, South Africa and Australia. Our global outlook is heavily conditioned by this accident of geography.

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<sup>24</sup> *ibid.*, p. 32.

<sup>25</sup> *ibid.*, p. 33.



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In 1997 the now Deputy Prime Minister and leader of the National Party John Anderson told the *Australian* that 'Australia should focus more on improving its exports of raw materials rather than developing processing industries' and 'it is likely that improving the quality of our raw materials will become much more important than value adding'.<sup>26</sup> As a committed free trader Anderson has a lot in common with the dedicated protectionist. Both implicitly assume that Australian manufacturing has little future without extensive protection. Recent history suggests they are both wrong.

Australia is very well placed to be a major force in the new knowledge economy, encompassing high-tech manufacturing and information services. Our traditional economic disability, distance, is of limited importance in these sectors. With English as our main language, an ethnically and linguistically diverse community, good communications infrastructure and a strong record of creativity, Australia should prosper in the new economy. Entrenched protectionist attitudes are a substantial threat to our potential to grasp these opportunities.

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<sup>26</sup> *Australian*, January 11, 1997.

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Although protectionism is clearly an inappropriate economic strategy for Australia, there is still a very important role for government in economic development.

Government intervention in the market is necessary for the market system to function. Corporations law, bankruptcy law, copyright and protection of intellectual property are all examples of intervention which are taken for granted. The fact that one particular form of economic intervention, tariff protection, ought no longer play a central role in our economic development strategy does not therefore mean that all intervention should be eschewed.

In the knowledge economy, firm-specific intervention by government is a good deal more risky, as the pace and ambit of change is much greater. The role of government must now focus on more generic forms of intervention.

Industry assistance should focus on the enhancement of these factors which ensure competitiveness, such as education and training, research and development, innovation and management skills. Many of Australia's recent manufacturing success stories have benefited from government programs directed to these areas. Unlike tariffs, such programs do not shield companies from competition, breed inefficiency or subsidise profit. As they often

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involve in-kind rather than cash assistance, the risk of companies diverting assistance into less productive uses, and taxpayers' money disappearing when individual companies fail, is significantly reduced. Co-operative Research Centres, enterprise networking, the Best Practice Program and Ausindustry are recent examples of government programs which enhance the competitiveness of firms without merely subsidising their profits or unduly placing public money at risk.

Government assistance which focuses on research and development, training and diffusion of advanced technology will deliver substantial economic dividends, without the negative effects of tariff protection. It is precisely in this area where the Howard government has been so neglectful. Within three years of Conservative government, public sector research and development has fallen from 0.78 per cent of GDP to 0.6 per cent. Private research and development has also fallen, following the reduction in the 150 per cent tax concession.

Australia's opposition to protectionism should be comprehensive. We should energetically press other nations to abandon disguised protectionist strategies, such as the use of child labour, prison labour and human rights abuses against trade unionists. Such devices are

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no different from tariffs, as they are designed to artificially change the price differential between competing countries' products by reducing input costs. Australia should support minimum labour and environmental standards in the World Trade Organisation charter as vigorously as we advocate global tariff reductions. Developing countries which are industrialising with the aid of late twentieth century technology can legitimately be expected to adhere to some late twentieth century values, such as abhorrence of torture and slavery. As the world economy globalises, economic regulation must globalise with it. Rather than regressing to the economic nationalist strategies of past eras, Australia should focus on pursuing its economic regulatory objectives on the international as well as the national level.

Australia has a tremendous economic future. We are superbly placed to play a leading role in the information and services economy, and to develop into an important high-tech manufacturing nation. If we listen to the siren song of economic nationalism, these opportunities will be lost, and we will regress into a world of less economic activity and fewer jobs. Shutting ourselves off from the rest of the world is no way to promote Australian industry. We should have the confidence in our ability to compete with the rest of the world in a wide range of economic activities, including a

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substantial spread of manufacturing industries, and concentrate on improving the factors which will enable us to compete, such as research and development, education, innovation and management skills. This is the high road to economic prosperity. Whatever problems we have to deal with, economic isolationism is not the answer.