

Industry Policy for a Productive Australia¹

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‘I might tolerate theoretically the infant-industry case, but theoretical toleration is unwise; people will soon go beyond it.’
(Colin Clark, from an interview with Chris Higgins, 1989)

I. INTRODUCTION

I am grateful to have been invited to give this lecture in honour of Colin Clark, one of Australia’s foremost economists. Many years ago, I had the pleasure of hearing some lectures from Professor Clark himself, when studying economics at Monash University. I remember being greatly impressed by his casual references to discussions ‘with Lord Keynes on the steps of the (British) Treasury’. More recently, in researching for this lecture, I found that while Clark agreed with Keynes on much, he had opposed the great man on the issue of industry protection. He saw this as Keynes’ ‘real blind spot’; and considered that ‘he enjoyed being on the popular side’ (Higgins 1989).

Clark himself was rarely on the popular side, especially in the protection debate. What’s more, he was severe on his fellow academic economists who, he said, ‘floated happily with the current of popular protectionist sentiment and have avoided the unpleasant task of having to educate public opinion out of its prejudices’ (Clark 1962). Clark generally came to his own policy conclusions, based not just on theory, but careful statistical evidence and acute observation of the world as it was. This no doubt led him towards the end of his life to make the observation that I have chosen as the header quotation for this lecture.

It introduces a theme that for me is of wider and continuing relevance. Industry policy measures assume an important place in any government’s policy armoury. But where they potentially deliver benefits to particular firms or industries, they are commonly the subject of much lobbying and self-interested claims. Moreover, where selective assistance to industry is involved, it is never costless, although the nature and incidence of the costs are often hard for the public to understand. It is therefore crucial that such policies not only have a sound rationale, but are carefully designed and implemented in keeping with it.

If Colin Clark were alive today, he would undoubtedly be impressed with Australia’s progress in reducing import barriers. But he might well turn a critical eye to some other forms of industry support and wonder whether they were all justified in the terms just described.

¹ Colin Clark Memorial Lecture, University of Queensland, Brisbane, 6 August 2008.

This lecture in his honour provides a timely opportunity to consider these issues. The Australian Government has just received the Bracks Report on the automotive industry and will shortly receive the Green Report on TCF. An interim report from the Cutler Review of innovation policy is imminent. And other relevant industry policy related reviews will also be reporting shortly. How the Government responds to these reports will effectively set the course for industry policy and its contribution to Australia's economic future.

II. THE END OF OLD-STYLE INDUSTRY (PROTECTION) POLICY

Writing in the early 1960s, Colin Clark was beginning to despair at the prevailing protectionist policy for Australian manufacturing and its deleterious impacts on work incentives and economic performance. He observed:

‘Australia in the future — if Australia is to have a future — will have to be more competitive in every way.’ (Clark 1962, p. 28)

Fast forward to today and, clearly, Australia *did* have a future. Our economy also is more competitive in every way than it was then. However, if we had been making this assessment in the early 1980s, Clark's warning would have remained apposite. For it was only in that decade that the first real steps were taken to reverse the protectionist conception of industry policy that was largely responsible for Australia's secular decline in world economic rankings.

Overtaking a policy approach that had delivered, or at least promised, ‘protection all round’ for several decades was obviously no mean achievement, as the contemporary battle over residual protection for the Automotive and TCF industries reminds us. The story is well told elsewhere and requires little repetition for this audience. Two elements, however, were crucial. One was the systematic generation of information about the costs that import protection inflicted on the wider economy, particularly primary industries — which enfranchised new political constituencies for reform. (By demonstrating that most of the gains from our trade liberalisation accrue to us, this also helped to dispel the myth that our actions should be made contingent on reciprocal reforms by foreign governments.) The second was political leadership with the wisdom to foster such public information and the courage to act on it.

The heavy lifting in the progressive dismantling of tariffs from Australia's industry policy apparatus commenced with Labor Governments, but tariff reform soon gained bipartisan support. And while the Howard Government balked at finishing the job for the general tariff regime (the so-called ‘revenue tariff’), it did enact legislation to gradually, but finally, bring assistance to the TCF and automotive industries — those perennial policy infants — into line with average manufacturing levels by 2015.

Labor's continuing commitment to tariff reform, while at the same time seeing a key role for industry policy, was affirmed by the Prime Minister in the following terms, at a press conference following his ascension to the leadership of the Labor Party (Rudd 2006):

Rudd: I'm actually a long term believer in industry policy. ...

Reporter: Does your belief in industry policy extend to a belief in the usefulness of tariffs and quotas?

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