The August Budget was criticised from all sides: for doing too little and too much. Roy Green thinks the critics miss the point. The main constraint on a rapid recovery is still the balance of payments, even though the government would prefer not to talk about it.

Predictably, the August federal Budget has been criticised from both sides: both because it tried to do too much for the jobless and because it did not do enough. However, these criticisms miss the point; the major shortcoming of the Budget was in fact the failure of the government to address Australia’s fundamental economic problem—the balance of payments constraint on the growth of output and employment.

This problem forced its way back onto centre stage last month with the announcement of a July current account deficit of $1.4 billion, resulting from a record import surge. For most commentators, the size of the deficit came as a shock. Yet while the July figure may well turn out to be a statistical aberration, the trend has been apparent for some months.

Indeed, the balance of payments was truly the ‘dog that did not bark’ in this year’s Budget. While the demand stimulus, including a well-targeted short-term job creation program, was welcome, its scope and effect were limited by the absence of any coherent industry policy measures to tackle longer term supply-side weaknesses reflected in the widening deficit. All that the combined pressure of the ACTU, the manufacturing sector and Labor’s own backbench could deliver in the deepest recession since the war was a $75 million plan to help exporters. And even this modest initiative would have been regarded as poison by some of the government’s free market economic advisers, who see no difference between export assistance and tariff protection.

Yet there remains a powerful case for industry policy in Australia, which becomes increasingly urgent as recovery comes into view. As I shall argue here, it is not a case for state planning but for a new tripartite framework in which ordinary trade unionists themselves can contribute to strategies for their companies and, more widely, for sectors of industry. The main elements of this case are, first and foremost, the constraint placed on growth and employment by Australia’s balance of payments; second, the need for manufacturing industry to compete successfully in
world markets; and third, the impetus provided by workplace productivity bargaining. I shall look at these elements in turn.

(i) Balance of payments constraint. Australia’s current account deficit for 1991/2, announced in August just before the Budget was $11.8 billion. This may sound a lot, but it was substantially less than the figure for the previous year. Even so, the point is that as recovery gets under way we can expect the deficit to deteriorate again. The biggest component of the deficit by far was the $15.7 billion interest bill on foreign debt, largely incurred by the private sector during the speculative binge of the 1980s. Unfortunately, this has now become lead in our saddle, restraining any ‘dash for growth’ within relatively tight fiscal boundaries. In fact, without this interest bill our external account would have appeared much more robust. We earned a surplus on our merchandise trade of $3.9 billion; manufactured exports contributed more than $10 billion towards this, continuing an upward trend which began as tariffs came down. That’s the good news, but it would be foolish to ignore the bad news.

The problem is that imports, which have temporarily been held back by recession, are now showing signs of resuming their upward trend as well, outpacing export growth. For example, in the July current account figures, while exports rose by 1%, imports grew much faster at 6%—further increasing the already high ratio of imports to sales. Yet it has become fashionable to argue that the current account does not matter so long as the rest of the world is prepared to finance it through capital inflows. There are at least two objections to this view, which have recently been set out by Professor Tony Thirlwall in the *National Westminster Bank Quarterly Review*.

The first objection is that the “interest rates will be higher than otherwise would be the case in order to finance the deficit, or to stop the currency from depreciating”. Clearly, this has been the case in Australia and, as might be expected, it has had a ruinous effect on investment, which is an essential precondition for growth and competitiveness. Second, “no country in the long run can grow at a rate faster than that rate consistent with balance of payments equilibrium on current account unless it can finance an ever growing deficit—which in general it cannot”. In other words, the balance of payments becomes the ultimate constraint on growth, raising the spectre of a damaging stop-go cycle which again we have been experiencing here in the recent past. In Australia, recent calculations by the Employment Studies Centre at the University of Newcastle (by Bill Mitchell, Martin Watts and myself) show that just to stabilise net foreign debt at 36% of GDP will require a surplus on trade in goods and services of 1% of GDP. Without that, external stability—a manageable current account balance—can be achieved only at the cost of low growth and high unemployment (see Table 1).

(ii) Manufacturing industry. We now know that it will not be possible to generate trade surpluses of the required magnitude through a continued reliance on primary commodity exports. Not only are these a declining proportion of world trade but their relative prices have also been falling steadily over the post-war period. Moreover, recent Reserve Bank figures suggest that a reversal of this trend is unlikely, with a further 6% drop in commodity prices since March, particularly affecting the rural sector. The theory of comparative advantage—which claims that the interests of all countries are best pursued by each specialising in a narrow range of products it can produce most cheaply—has, in effect, locked Australia into a downward spiral of competitive disadvantage.

The source of net export growth in the future lies in manufacturing, especially elaborately transformed manufactured products (ETMs), which comprise the largest and fastest growing segment of world trade (see Diagram 1). Yet the legacy of tariff protection in Australia is a ‘sheltered workshop’ manufacturing sector. That is why the government was essentially right to pursue a program of tariff reductions. The problem, however, was that, without an industry policy to support it, the development of export competitive manufacturing was made to depend entirely upon the market, or what boils down in the economists’ models to spontaneous entrepreneurial combustion’.

While the Prime Minister has understandably made much of the growth in manufacturing over the period of the Labor government, it should be placed in perspective. This growth started from a very low base, and still leaves simp-
ly and elaborately transformed manufactured exports taken together at a relatively small 21% of Australia’s total exports (see Diagram 2). Similarly, the trebling of ETM exports since 1983 to over $10 billion needs to be set against the fact that they constitute less than 20% of merchandise exports but more than 65% of merchandise imports. In other words, despite an overall manufacturing surplus, we are stuck with a $22 billion deficit in ETMs.

What can be done? So far, the government’s approach to manufacturing has encompassed ad hoc industry plans, offsets policies and depreciation allowances. It has also involved setting up bodies such as Austrade, the National Industry Extension Service and Australian Centre for Best Practice to advise firms on new production techniques, work practices and market opportunities.

Yet, whatever their individual merits, these measures do not add up to a coherent industry policy, particularly when put in the context of the high interest rate and exchange rate regime of the late 1980s. In the end the weight that should have been carried by industry policy, especially to promote investment, productivity and competitiveness, fell upon wages policy instead.

(iii) Workplace bargaining. Most commentators now acknowledge that wages policy under the Accord played a key role, at least initially, in promoting non-inflationary growth. It soon became clear, however, that the resources released by wage restraint were being directed not to productive investment but to takeovers and asset speculation. The result was that while Australia enjoyed the fastest jobs growth in the OECD, productivity had stalled in just the areas where improvements in competitiveness were urgently required. Paradoxically, this was further compounded by wage restraint to the extent that relatively cheap labour became a disincentive to investment in labour-saving technology.

More recently, the carefully-managed transition to workplace productivity bargaining within the framework of the arbitration system has shifted the focus from restraint of nominal wages to control over real unit labour costs. In other words, how much workers get paid matters less to firms than their total wage costs per unit of output. Last October’s National Wage Case decision gave effect to this new approach to wages policy in the Enterprise Bargaining Principle (EBP), opening up the prospect in Australia of a high wage, high productivity economy. In a sense, like award restructuring, productivity bargaining is an attempt to achieve the objectives of industry policy by other means.

The emphasis on joint consultation and agreement by the enterprise bargaining principle gives workers and union representatives an opportunity to directly influence investment decisions, and consequently to strike a balance between investment and consumption in the collective bargaining process itself. Indeed, ‘industrial democracy’ is no longer an abstraction, but an integral part of the bargaining agenda. The main drawback of workplace bar-

gaining, however—at least from the viewpoint of Australia’s manufacturing prospects—is its fragmented and uncoordinated character.

This is where industry policy fits in, because it would permit the development of company investment strategies in the wider context of strategies for each sector of industry. The worldwide shift from low-cost mass production to high-quality flexible manufacturing has reinforced the importance of sector strategies, especially given the trend to smaller, more interdependent production units. And it has made redundant old debates about state planning versus markets, with the skills and initiative of workers themselves becoming a vital ingredient in success.

A tripartite industry policy does not need to ‘pick winners’ because winners have the scope and capacity to pick themselves as part of strategies to which they have contributed—say, in the sector committees of a revamped and more powerful Australian Manufacturing Council. These strategies would entail a new conception of the Accord in which power is devolved to unions and their members at the workplace (see my ‘Time for a Turnaround’, ALR 136, February).

Essentially, the strategies would build upon joint negotiation and agreement at the workplace and emphasise ‘networking’ between companies, diversification, closer producer-user links, upgraded research and development, technology transfer and, where necessary, export facilitation measures. The aim here is competitive advantage through co-operation, not protection by another name.

Moreover, the fruits of success would be substantial. As a small scale example, the Employment Studies Centre has recently calculated the total effect of $100 million of import replacement in each of two typical manufacturing subdivisions, Transportation Equipment and Paper, and Printing and Publishing. We estimate that this would yield an additional 3,800 direct jobs, 1,500 indirect jobs via induced domestic spending, additional output of $270 million, an improvement in the government’s budgetary position of $120 million and a reduction of net imports and hence improvement in the trade balance of $170 million.

The Prime Minister knows that his best chance at the next election is to put some distance between the government’s approach to the economy and the Opposition’s blinkered adherence to free market ideology, especially as the deregulation tide recedes around the world. The government made a start with its One Nation infrastructure projects and has now deepened that with the short-term public sector job creation program announced in the Budget. But these must be accompanied by a longer term industry policy, based on the development of workplace bargaining, to stake out new ground for Labor’s vision of the future.

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