sharing assistance to established firms investing in targeted export developments—a technique used in Sweden, France, Japan and the US—also seems a productive approach. Governments need to actively seek bilateral and multilateral trading agreements and assist in the international marketing of Australian produced manufactures.

It needs to be emphasised that support for this type of industry policy strategy does not necessarily imply opposition to a programmed reduction in tariff protection, or to microeconomic reform in areas such as transport and communications. However, reduction in existing forms of protection such as tariffs should be taken as being contingent on the introduction of positive industry assistance packages. What is required is a fundamental renovation of the structure of industry assistance, not its demolition.

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WOLF IN SHEEP'S CLOTHING

In recent years there has developed within the labour movement a greater appreciation of the role of the market in shaping economic development. In line with this greater understanding, it is now broadly accepted that tariff protection has not helped the development of world class industries. The most internationally uncompetitive sectors of the Australian economy are, in most cases, also the sectors which have been most heavily protected.

The connection between tariff protection—a specific form of protection—and internationally poor performance has been grudgingly accepted by some sections of the labour movement. In general, the damaging consequences of protection on economic performance have not been fully appreciated—hence the current search for a new form of protection to replace the final removal of tariffs at the end of this decade.

The search for a new protectionist framework, has been dressed up as a search for industry policy. What precisely is meant by industry policy is not very clear, but it seems to have something to do with positive industry assistance initiatives and structural adjustment assistance. Presumably it is the government that is to provide these assistance measures.

Since these measures will incur costs on the community purse, the government will either have to increase taxation or draw resources from other areas of need to pay for them. Irrespective of how these measures are funded, it is clear that government provision of assistance to one group must be at the expense of another group or activity. The cost may well be borne by the more needy in the community, who have traditionally been provided for by government, and who are unable to afford to fund glossy reports and lobbyists to convince government of the importance of their special interest. Given the competing claims on government, the key issue is how to choose which claims to meet. It is in this area that the latter day protectionists have failed to make a convincing case. The advocates of industry policy have advanced two major arguments in favour of it. These stress:

- the need to export more high value-added products such as elaborately transformed manufactures (ETMs). These high value-added industries are desirable because of their growing importance in world trade and because they provide the platform for high value-added input services.
- the need to create and develop industries which have a strong 'linkage relationship' with other industries (such as the car industry). These linkage relationships generate positive effects across a range of activities, including high value-added services.

The first argument, that ETMs should be encouraged by active industry policy, is not convincing because it fails to establish the market failure the policy is supposed to correct. Agreement that ETMs are desirable is not an argument for active industry policy. If these high value-added industries are generating returns above those to be achieved in sectors that are low value-added, one could expect, all things being equal, that capital and other resources would flow into these sectors.

The fact that Australia runs a trade deficit in ETMs is not a sign of market failure. It is a sign that some other country is a more efficient producer of these items than we are. The desire on the part of some special interest groups to encourage the government to increase support for these industries is understandable but it should, nevertheless, be rejected on economic grounds.

The second argument put forward by advocates
On the one hand, protection has served Australia badly. On the other, its removal leaves us decidedly vulnerable. The dilemma leaves Sue McCreadie feeling uneasy.

The recent backlash against 'economic rationalism' has challenged our over-reliance on market forces to accomplish restructuring and the subordination of social goals to economic ones. In the commonsense of many on the left, tariff reductions belong in the litany of 'economic rationalism' sins allegedly committed by the Labor government over the 80s, alongside financial deregulation, the erosion of universal welfare provision, corporatisation, privatisation and, more recently, the shift away from centralised wage fixing.

But while the debate about tariffs is part of a wider debate about the power of the market to allocate resources effectively, not all those on the side of interventionism are in favour of protectionism. The recent debate over Australian industry policy was inaugurated by the Australian Manufacturing Council's (AMC) report Global Challenge and the Garnaut Report in 1990. In that debate, those who argued for government assistance to industry on the grounds of market failure and the unlevel character of the international playing field also generally insisted that protectionism was not the best way to assist industry and that highly protected industries...