

Trade Policy: the Litmus Test

John Hyde

A recent assertion that, whoever wins the election, Australians would savour enterprise bargaining, provoked this response from Norm Dufty, Visiting Fellow of Industrial Relations at the University of WA: "Only if something is done about union power on the one side and tariffs and anti-competitive regulation on the other". There is more to Dufty's point than most of us yet realise.

Unless deregulation of labour markets is accompanied by deregulation of product markets and of unions, enterprise bargains will not be struck, will be made under duress, or will be made in such a way that other industries and consumers will bear the costs. Industrial Relations Club members know this, but they beg the real argument which is about ending union and employer privileges.

That brings us to the Opposition's Industrial Relations policy and the Confederation of Australian Industry (CAI) brouhaha. The policy enhances the role of enterprise organisations at the expense of craft unions. It should not surprise anyone if the CAI had wanted to change this. Nevertheless, I don't think the recent additions to the Liberals' Industrial Relations Policy do inhibit the formation of enterprise unions---Senator Chaney assures me that they do not.

Further, if enterprise bargaining should require that something be done about tariffs and anti-competitive regulation, that would be another reason why the CAI might want to kill it off. The truth is that support for some of the worst economic practices---those which have made the Australian economy weak---has long been CAI policy. However, the Opposition did not remove its promise to reduce protection from its IR policy.

The Business Council of Australia (BCA) made its position clear in its paper, "Enterprise Bargaining Units". This called for the abolition of the unwarranted privileges of both capital and labour. Specifically it argued for "unions representing employees in a work place" and for the abolition of the "conveniently belong" clause of the *Conciliation and Arbitration Act* at enterprise level. By upholding freedom of

association the BCA struck a blow against unwarranted union power.

Moreover, the BCA clearly called for free trade. It asserted at page 2 of "Enterprise Bargaining Units" that the opening of the economy to international competition is essential to the achievement of all of the following: adjustment of work methods; orderly and amicable dispute settlement; fair remuneration; and encouragement of a competitive, productive culture.

The debate has come a long way.

Both the CAI and the BCA have long recognised the dangers, which Dufty saw, in weakening a centralised discipline which had sometimes exercised some moderating influence over unions. The traditional CAI response has been to retain and strengthen the centre. With the release of "Enterprise Bargaining" the BCA broke with the traditional big firms' attitude. Instead of trying to countervail union power, it sought to disperse it by abolishing the privileges which underpin the power.

Competition in the factor markets is important. But the key to economic growth is competition among producers. Because Australia is a smallish economy, opportunities for internal trade are modest. These opportunities are further restricted by concentration of our comparative advantage in resource-based industries, by the distance between our centres of population, and by an unusually inefficient transport system. To prosper we must trade internationally. The Garnaut Report had this to say:

"A main theme, and one upon which all others depend, is that we must accelerate progress in domestic economic reform, to build a flexible, internationally-oriented economy that is capable of grasping the opportunities that will emerge in the decades ahead.

"Of greatest direct relevance are the needs to press ahead with trade liberalisation, toward the abolition of all official restrictions to trade imposed at Australia's borders by the end of the century...."

Free trade is, as the BCA pointed out, "essential" for labour market reform, but that is not all. Free trade is central to reform of the protected industries themselves, and its benefits for the export sector are, today, rarely disputed.

In fact its benefits, although more or less attenuated, are all-pervading. Consider tourism. With free trade this industry could enjoy a dollar at a lower non-inflationary level than is possible behind the wall of tariffs and import quotas, obtain bed sheets and butter at perhaps half the current price, and have their guests transported by foreign airlines between Australian cities. It could also enjoy labour market reform, that without freer trade would have foundered upon inflation. The general point is that everything in an economy eventually affects everything else.

In spite of the lessons of theory and experience, protectionism is alive and well, recycling its old arguments and clutching at new straws. The current misconceptions, given an undeserved ear by electioneering politicians, are:

- | that Australia cannot reduce its trade barriers until other countries do likewise (i.e. good guys come last) and,
- | that governments can improve the general welfare by favouring some industries (sometimes called infant, growth or sunrise industries) at the cost of others.

Treasury was sufficiently horrified by these arguments to devote the January edition of Economic Round-Up to supporting Garnaut and free trade. Free trade, they say, "remains the superior policy in most circumstances".

Free trade is now, as it has always been, in Australia's interests. Trade reform is easily defined and easily understood. It could be a litmus test of sincerity in the coming election. I wrongly called the Liberal's Trade and Industry policy 'whimpish' a few weeks ago. It has been pointed out to me, rather forcefully by Senator Austin Lewis, that the policy calls for the Australian economy to be fully integrated with the international economy by year 2000. That is, it calls for free trade by 2000---exactly the same as Garnaut. Mea culpa.

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