

On Bill Carmichael's Retirement

*John Hyde*

In the wake of the unusually large electoral swings against Labor, collectivist zealots---a numerically insignificant group in the wider community but important in Labor Party conferences---are combining with defeated politicians to blame the Federal Government's economic reforms for Labor's losses. Nobody, especially a defeated politician, wants to admit that the disenchanted blue-collar voters might have other gripes, such as contempt for Mr Hawke's unhealthy attitude to the spoils of office or Mr Unsworth's aura of incompetence.

After almost a century of neglect, micro-economic reform is on the political agenda. Labor in Canberra is deregulating, reducing import barriers, plugging tax loopholes and talking of breaking up statutory monopolies. As recently as February 1st, Mr Keating boasted to the Davos symposium that in these reforms, "we have taken the people with us". The Liberals would not have attracted voters worried about deregulation; they say that Labor's deregulation is too slow.

Not long ago these same free-market policies terrified the Fraser government. The new agenda is politically possible now, only because of the rout of vested interests. The special pleaders, who, for so long proved so adept at keeping their economic privileges off political agendas, have lost influence---with one big exception: the power brokers of the labour market.

Mr Keating's claim that he has fixed the macro-economy and can therefore turn to the micro-economy is bombast. The macro-economy is far from fixed and the macro does not in some way precede micro. As the Treasurer himself said at Davos, macro-economic measures are short term, and more fundamental changes are needed to provide a lasting solution. His boast there, that there has been "a sea change of community opinion" was no doubt made to impress our creditors---it was, nonetheless, correct.

There is a new appreciation that we are all in the same boat. There is no better example of this than the Metal Trades Industry Association (MTIA). Once narrowly selfish in its demands and fiercely protectionist, it now adopts a more economy-wide approach. And, when internal politics prevent it

from speaking in a manner consistent with the general interest, it has the grace to shut up.

Of course some producers---in telecommunications, airlines, cars, textiles, steel and whole milk for instance---still demand favoured treatment, but ministers are finding it easier not to exempt them from competition. Special pleaders are being seen for what they are. The Industries Assistance Commission (IAC) can take the largest measure of credit for this considerable advance in public understanding. Its chairman, Mr Bill Carmichael, is retiring, and this is a good time to acknowledge IAC successes.

Under Carmichael, the IAC's enquiries have changed from being preoccupied with frontier barriers---tariffs and import quotas---to encompassing the whole micro-economy.

In February 1984, in Tokyo, Mr Hawke committed his government to micro-economic reform. I wrote then that he was on a different tack to Whitlam and Fraser: "First make the Australian people realize that they have a problem...the Alcoholics Anonymous technique."

I got it partly right but the government's approach has been more subtle. By publicly embracing the principle of transparency, and extending the IAC's brief to the whole economy rather than just the traded goods sector, the government has made anti-competitive regulation into an issue with moral overtones, and it has broken into the bunker mentality of the highly protected import-competing industries. It is no longer quite nice to enjoy any anti-competitive immunity---a license, tariff, subsidy, anything. And these immunities are more often recognised for what they are---wealth transfers from other Australians which save the recipient the inconvenience of restructuring to become efficient.

Now that the IAC is to investigate government charges and other 'domestic' matters such as transport costs, much of the heat is gone from the debate. Ironically, with the broader review references in prospect, the IAC is now sometimes seen as the manufacturers' ally.

Australia must export to maintain living standards. We are often confronted by other countries' trade barriers, and by the breaking of the spirit, if not the letter, of the General Agreement on Tariffs and Trade (GATT). It will not be possible for international surveillance to stop this, unless some way is found to put the less-visible trade barriers on the negotiating table.

However, both parties benefit from trade, and when trade is hindered, both lose. Foreign governments don't dislike us; they are victims of the same uncosted domestic policy demands which give rise to Australian trade barriers. Appreciating this, Australia is among the seven sponsors of a New Zealand proposal which will require GATT signatories to adopt

transparency procedures. In an informed society rational self-interest should make trade surveillance unnecessary.

For major reform successfully to run the democratic gauntlet, one more element is needed: this is a concentrated vested interest with enough at stake to carry the case politically. Even huge costs, when they are so widely dispersed that no one loses much from them, won't provide a reforming Prime Minister with active supporters.

Tracey Horton (AIPP Policy Paper No 13), explains how, when we consider shares of GDP, the cost of frontier protection is passed from producer to producer until borne entirely by exporters. By a similar process, the cost of interference in internal markets, is passed along until it reaches the producers of both exportables and importables. Exporters have a relatively concentrated interest in micro-economic reform. Because any policy which hinders trade---domestic or foreign---also reduces the size of GDP, lowers average living standards, and increases the foreign deficit, the exporters' interest coincides with the national interest.

It is now understood at a political level that we cannot protect our way out of a balance of payments crisis, and Labor has invested political capital in micro-economic reform. Nevertheless, in the wake of its electoral set-back, the government will come under irrational pressures and it is two-and-a-half years to a Federal election. Miners, farmers and other exporters should try to insure that the electoral capital already invested is not wasted.

ENDS