UNIT 9 DEVELOPMENT STRATEGIES

Structure

9.1 INTRODUCTION

Australia's economic endowments are largely its natural resources such as minerals, agricultural produce and livestock. It is these resources that had conditioned Australia's economic development process for a long period of time ever since colonisation. Even as late as 1930s, Australia remained by and large an exporter of its natural resources and in return imported manufactured goods primarily from the United Kingdom. However, a combination of both external and internal circumstances led to a gradual transformation of the Australian economy beginning in the 1940s. For, by now, a process of industrialisation had begun largely assisted by tariffs introduced by the federal government with a view to achieve full employment and increase in workers' wages. Ever since, the federal government made concerted efforts to evolve a development strategy which admittedly underwent revision now and then to deal with issues such as full employment and diversification of the economy. It is against this background, this unit seeks to highlight the development strategies adopted by the Australian government since the Second World War.

9.2 OBJECTIVES

After reading this unit, you should be able to:

- describe Australian efforts to diversify its economy;
- delineate the restructuring of the domestic economy in accordance to the process of economic globalisation; and
- critically analyse the development strategy of Australia.

9.3 POST-SECOND WORLD WAR DEVELOPMENT STRATEGY

Following the Second World War, like most primary resource exporting developing countries, Australia too emerged with substantial foreign exchange reserves, near full employment and a balance of payment surplus. These fortuitous circumstances gave Australia a strong direct impetus to the development of a more integrated and self-sufficient and import-substituting industrial sector. While wartime constraints such as scarcity of materials were surmounted with the end of hostilities, shortage in labour supply, especially in the construction sector, were met by a liberal immigration policy. Between 1947 and 1950, net arrivals of immigrants increased five-fold from around 30,000 in 1947.

In 1950, with the beginning of the Korean War, the demand for Australia's wool rose sharply boosting export receipts as one half of its exports consisted of wool. The price of wool increased sevenfold during 1951 to reach record levels, and other primary exports also prospered as new markets emerged. But it was short-lived. In the following year as the world market price for wool plummeted, it precipitated a balance of payments crisis mostly on account of an incessant increase in imports.

Under these adverse circumstances, the government sought to meet the balance of payments crisis by generating additional export income and at the same time diversify the country's export sector. A series of policies aimed at fostering additional agricultural production for boosting exports and quantitative restrictions through tariff on imports were implemented which gave import-substituting/-competing domestic industries not only the much-needed foreign exchange but also protection from foreign competition. Further, in the successive years, the East Asian region began recovering and with it Australia's export orientation shifted from traditional Western Europe to East Asia. A new treaty with Japan in 1957 offered Australian primary exporters a lucrative market in the region. Notwithstanding these policy initiatives, Australian economic development, the following decade suffered largely on account of chronic short supply of foreign exchange and to that extent, the governmental policy towards diversifying the economy through a process of industrialisation too failed.

While the government admitted that the unsatisfactory balance of payments situation "overhung" all considerations in respect of the country's development, it was not until the mid-1960s there appeared any turn around in policy initiatives to restructure the economy. It was in the year 1967, that the Tariff Board noted the need to "induce a more economic and efficient use of production resources" in order that such use would foster "increased stimulus to industrial development, including development in the protected sector" (Annual Report for the Year 1966-67). At the same time, the government realised that the ad hoc way in which the tariff structure had been built over the years has been somewhat counter-productive because it resorted to a variety and often conflicting economic objectives. Therefore, it sought to rationalise its tariff policy.

Towards the end of the 1960s, other externalities including importantly the evolving process of economic globalisation posed yet another challenge to the policy makers. With the demands made by developing countries under the aegis of the United Nations Conference on Trade and Development (UNCTAD) seeking signatories to the General Agreement on Tariffs and Trade (GATT) which included Australia, the federal government was forced to adopt measures to prevent the gap between the low-income and high-income countries widening further. Also, the greater flexibility of global exchange rates adversely affected the government's subsidy and support policies and impacted differentially between the protected domestic industries and the export sectors of the economy. Furthermore, the influx of foreign capital into the economy demanded a careful scrutiny by the federal government so that the inflow of foreign investment would not be detrimental to the process of domestic industrialisation.

It was in these circumstances, the federal government chose to adopt a narrowly based fiscal policy of revaluing the exchange rate unilaterally and lowered the tariffs across the board by as much as 25 per cent — all with a view to increase imports and thus reduce the shortages and bring about price stability. Implicit in the policy rationale was that if prices and wage costs could be reduced and profits restored, then a resumption of activity would become inevitable. Also, cuts in the government expenditure would reduce public deficit, reduce public sector's demand on saving and ease interest rates to allow increased private investment.

In the short-run, the fiscal policy device offered some respite. Inflation did decline. But at the same time as restrictions on foreign investment were lifted to finance an expansion of export industries, traditional primary exports such as wool yielded place to wheat. The rapid rise in the price of oil in the world market offered Australia to become the prime supplier of coal along with increased exports of oil, gas and uranium. New mines developed in Western Australia and Queensland, however, created relatively fewer jobs as they were capital intensive. And when the mineral boom collapsed in 1982 and a chronic drought ravaged the agricultural sector, the government was forced to withdraw its tight fiscal policy. The outcome was disastrous as inflation skyrocketed and with a breakout of wages and sudden spurt in the rate of unemployment together with a sharp decline in export earnings along with rapid rises in prices, wages and interest rate-all of which cumulatively led to a recession in the economy.

The abrupt and swift downturn, however, reflected differently on the constituent states of the Australian federal set up. For, whereas primary resource — rich states such as Western Australia and Queensland remained relatively prosperous because of their growing mineral exports, particularly coal and iron ore, the traditional industrial states like New South Wales, Victoria and South Australia experienced serious economic setback. It had thus become clear by mid-1970s that the Australian economy was faced with a stark choice. The choice was between a slower rate of growth or usher in a greater degree of structural change in the economy by encouraging healthy industrial development.

9.4 RESTRUCTURING THE ECONOMY

A turn around came in the early 1980s. The federal government appeared steadfast in its policy pronouncements to resolve the dilemma. By early 1984, the government stated categorically to pursue domestic industry restructuring and at the same time supporting international initiatives to foster a more liberal trading regime. Ever since, the government underlined the need to recognise the logic of linking a competitive — as against protected-domestic industry with a less restrictive international trade by eliminating, if not, drastically reducing tariff and non-tariff barriers. In accordance with these stated policy objectives, the Industries Assistance Commission (IAC) was assigned new policy guidelines. The stated guidelines sought the IAC to explore means and mechanisms to "encourage the development and growth of efficient Australian industries which are internationally competitive, export oriented and capable of operating over the long term with minimum levels of government support". Further, the government sought the IAC "to facilitate adjustment of industries to structural change and persons affected [sic] by those changes, having regard to the need to minimize any social and economic hardships that may be involved". (Industries Assistance Commission, Annual Report 1983-84 (Canberra, AGPS, 1984). According to the government these initiatives towards restructuring of the domestic economy together with trade liberalisation policy would enable Australia to negotiate with some credibility in the international forums.

The poor performance and prospects of the resource-based industries, which traditionally constituted a chunk of Australia's (about 80 per cent) exports, in fact, highlighted the need for a more competitive industry structure. Justifiably, the problem was seen to lie in the slower growth of those sectors globally relative to manufactures and services, and the weak terms of trade which resource exporters faced. But what was not considered was the diversification, which was being forced upon resource-rich exporting countries, which already specialised in the areas into which Australia sought to diversify. The problem with this oversight was that those changes 'raised the goal posts' much too high for many in Australia.

Having for long been a sheltered primary-producing and exporting economy and given its strong economic linkages with Western Europe, the emergence of newly industrialising countries of East Asia in the decades of 1960 and 1970 challenged the basic economic foundations of Australia. For, the East Asian "tigers" with the support of MNCs instead of specialising in their areas of comparative advantage (i.e. labour intensive industries where low labour costs gave them an advantage) adopted a strategy of capital-intensive mass production. These changes rendered Australia's traditional tactics for promoting economic activities — i.e., attracting investments to exploit 'comparative' advantages in primary resource sector-obsolete. Firstly 'comparative' advantages i.e., advantages associated with the existing characteristics of region such as natural resources were losing potency relative to 'competitive' advantages. Producers reliant on 'comparative' advantages lacked market power as all producers shared similar advantages and had limited value added potential. This indeed was the reason for the poor returns that Australia's traditional commodity exports faced. Secondly, seeking investment was a poor tactic as the productivity of capital-intensive production had been eroded by NIC competition and there were thus few desirable 'footloose' prospects. For this reason 'industrial recruitment' generally lost priority as a developmental tactic in Europe and North America after the 1970s, though it remained the state-of-art tactic in Australia.

As these changes adversely affected the prospects of commodity producers, who were the traditional core of regional economies, diversification was chosen as the strategy in 1980s, which required a shift into knowledge intensive industries. Only in the larger cities in Australia has there been any general basis for success in the new economic environment. This constraint could have been overcome but was not possible due to a lack of appropriate institutions to manage strategic change.

Many impediments stood in the way of change, which among others included a narrowly rigid administrative system. For instance, although under Section 92 of the Australian Constitution, trade across state borders within the federation is "absolutely free", the state regulations regarding packaging, labelling and standards made it difficult for the industries to have access to the national market. Also, most state governments gave preferential treatment to industries functioning within their boundaries by way of purchasing goods and services. No less rigid were the trade unions that would ensure job allocation within states for those belonged to the regional trade unions. In the evolving circumstances when industries were looking for re-trained and re-skilled labour, they found it difficult because of the rigidity in the labour market. Such rigidities were reflected even in wage clause in certain sectors such as metal trade. So much so, such of the federal initiatives by way of long-term restructuring plans which included assistance to be provided to displaced workers for re-training made no impact whatsoever in the face of the already existing rigidities in the labour market.

Against these built-in institutional constraints, the federal government decided to abandon its exchange control policy apparently with a view to allow the value of the currency to be determined by the market. Once foreign exchange controls were lifted and controls on domestic banks reduced, foreign banks moved in fierce competition in the capital market. As a result, the rapid increase of overseas borrowing and a persistent trade deficit place the Australian dollar at the mercy of speculators. Between 1985 and the first quarter of 1986, Australian currency lost nearly one half of its value. With foreign debt accumulating and representing 30 per cent of the gross national product, fall in the exchange rate further added a strain on the foreign debt liability.

Australia's deteriorating economic situation in these critical years led some political leaders to warn that if the country does not mend its ways, it will "end up being a third-rate economy…a banana republic" (Paul Keating). Policy options such as cuts in public expenditure, further wage restraints and further exposure of Australian business to international competition were considered seriously. In the process, the essential features that had sustained the country since its inception such as a strong welfare state with its abiding faith and commitment to protect the economy and living standards of its people came to be abandoned yielding place to the operation of free market forces in the ensuing years.

9.5 STRUCTURAL ADJUSTMENTS THE OF 1980s

In May 1988, in a significant policy announcement called Economic Statement, the federal government introduced a series of measures involving substantial but phased reduction in the average effective rate of protection for the manufacturing sector across the board. Overall tariff was reduced from 19 per cent as of 1987 to 13 per cent by mid-1990s. A year earlier the government amalgamated the Department of Foreign Affairs with the Department of Commerce signifying the primacy that the economy reshaped the foreign and domestic policy. In August 1989, the federal government disbanded the Industries Assistance Commission and replaced it by setting up the Industry Commission as the apex agency for review and evaluation on all matters relating to industry and transport sectors.

The newly set up Industry Commission, despite the deterioration in growth rate triggered by rising inflation, increasing unemployment and falling real wage was unrelenting in its recommendation for the restructuring of the economy. "[D]elaying reform because of recession, or for other shorter term reasons, is to lose the gains available to the community", was the Commission's refrain. It went further stating that if the reform process is further delayed, it would mean "passing up opportunities to create a more flexible economy which is better able to cope with future economic shocks". As to the short-term problems, the Commission merely argued that the "community appears prepared to accept some delay in receiving the benefits of reform if it makes adjustment easier" (Annual Report, 1990-91).

The prevailing political climate favoured the logic of structural adjustment. Ironically, the federal government under the Labor party in the late 1980s was favourably disposed towards the neo-liberal approach. Prime Minister Paul Keating was most vocal in support of this logic. Affirming the need for restructuring, the Labor government argued that failing "to confront the realities of the world market", Australia would "retreat to the failed policies of the past". Economic globalisation then became the catchword for these "realities" and as one observer aptly put it, globalisation "served as diagnosis and remedy for the rapid changes that transformed Australia" since. (Stuart Macintyre, A Concise History of Australia, Cambridge: Cambridge University Press, 2000)

It is in this uncertain economic climate that the federal government pressed ahead with economic restructuring, announcing that most tariffs would be reduced to a maximum rate of 5 per cent by 1996. Along with this, through the various industry plans already in the offing, the average effective rate of assistance to the manufacturing sector was expected to reduce to 5 per cent. At the same time, the governments at the federal and state levels agreed in principle for a centralised regulatory mechanism covering among others, industry, transport and communication sectors. The policy package thus was embedded in the theme of globalisation with the industrial and manufacturing sectors to become "more outward looking and more thoroughly integrated into the world economy" and Australia's external trade to become "attuned to the international investment climate" (Working Nation).

In 1997 when stock exchanges in most of the Asian business capitals collapsed portending a deep recession in and around Australia, these untoward developments provided further justification for a second generation of structural reforms for the federal government. Now, under the Liberal-National coalition, the federal government embarked on a further round of economic reforms more drastic than under the previous Labor government. These included more trade liberalisation, relaxation of environmental safeguards, and increased deregulation of the financial sector along with a decisive assault on the labour market. At the same time, the federal government abandoned many of its commitments, made further cuts in public expenditure, sold more public assets and resorted to retrenchment in public service. In doing so, the government of the day claimed that it has contributed to increase in output, reduction in unemployment and negligible inflation. Such that the development strategy of the yester years underlining the paramount role of state yielded place to the primacy of market as the agent of development.

9.6 AN APPRAISAL

Having examined at some length the developmental strategy that Australia adopted during the past five decades, this section is devoted to make an appraisal of these strategies especially in the more recent decades. At the outset, it may be said that Australia over the years has undergone transformative changes in its economic development. From being a primary resource exporter in the past, today Australia has evolved into a fairly diversified economy with a potential to export manufactured goods and services alongside its traditional exports. As of today, Australia's mainstay admittedly, is its primary exports. Whatever restructuring had occurred over the years in turning it into a diversified economy, the process is yet incomplete. Its vulnerability to the vicissitudes of global market price, especially in the primary resource sector, is quite evident. The strategies that it had evolved over the years are yet to secure for Australia a definitive role in the global economy. A critical question that needs to be raised here is regarding the fault-lines in its development strategy.

For one, in the name of development strategy towards economic restructuring more emphasis has been placed on deregulation, tariff reductions and competition policy with government 'assistance' programmes on the basis of microeconomic theory. But micro economic theory contains serious defects as a way of building economic competitiveness because it relies entirely on market/ price signals for firms to switch to most productive use of resources. In effect, the theory does not deal with any number of other factors. Notable among them are: 1) the knowledge and skill assets of firms which are critical to their future performance; 2) the 'systemic' capabilities within (regional) economies, which must be effective as a source of relevant knowledge and support if firms and individuals are to successfully compete through innovation (e.g., industry cluster effectiveness); and 3) the effect relevant knowledge can have in accelerating the emergence of those capabilities.

Critics have highlighted the narrowly based development strategy of Australia as against a more comprehensive policy based on 'systemic' capabilities, which are needed within a productive industry cluster. These capabilities include arrangements providing: market and technological intelligence; support in business development or innovation; and business-relevant training. Leadership in developing such integrated systemic capabilities is vital. Without leadership of such development, growth can be limited by the weak capabilities of under-developed economic systems (e.g., in marginal rural, coastal and metropolitan regions where the institutions needed for a knowledge-based innovation-capable economy did not exist). However, political institutions cannot lead this in market relevant ways due to pressure from self-interested groups, and the probable lack of strategic commercial value in ideas, which are so well known that they are politically acceptable.

Queensland is as an apt example for the inefficacy of Australia's liberalisation policy. In Queensland (and perhaps elsewhere), the professional Public Service had documented and experimented successfully various options and not just liberalise the economy in the 1980s. However politicisation of key functions under successive governments then prevented this happening. In practice the knowledge and skills required to successfully manage strategic change were eliminated in the name of Public Service 'reform', and Queensland's traditional economic tactics were continued - i.e., seeking to 'recruit' (industrial era) projects through low taxes and support for major investors, and provision of government 'assistance' to fill market gaps (which obstructed economic development).

As always, these tactics resulted in the rapid growth of low productivity sectors, because (in the absence of the complementary knowledge assets to provide a local basis for competitive advantages) investments cannot usually be in functions, which are highly productive, and the community generally can have little scope to capture significant value added. As the traditional tactics continued and the requirements for competitive success had changed, the capabilities needed for prosperity were often not created and the result was overall under-performance and adverse impacts on many regions and individuals-leading to inequality and political instability.

Queensland has not effectively developed its economy, despite its 'success' in the rapid growth of poor quality economic functions. Economic under-development is thus indicated by such factors as:

i) the growth of mainly low productivity industries such as tourism with low average wages and returns and capital intensive resource extraction and basic mineral processing which have typically achieved poor corporate returns for two decades;

ii) relatively low and declining per-capita incomes; and

iii) the existence of marginal rural, metropolitan and coastal regions whose communities have been unable to cope with economic change and have been transformed from productive contributors into virtual 'welfare' cases.

This, however, is not just a provincial state problem, and the split between the 'haves' of the knowledge economy and the 'have-nots' of the rural, coastal and metropolitan margins is now recognised nationally by a high current account deficit (representing a structural gap between national spending, and the (lower) income derived from such spending); and by political demands which distract governments from forward-looking policies. Unsatisfactory outcomes were partly due to the difficulty of the challenge (e.g., changed fortunes of resource-based and capital intensive industries; and the standards now required for high productivity enterprise). However, as the basic challenge has been recognised since the early 1980s, poor outcomes must also be blamed on those who, 10 years ago, did not take seriously the need to adopt new economic management tactics in the face of clear limitations on traditional tactics. Much better outcomes could have been achieved if economic management tactics were shifted from a focus on external investment in areas of comparative advantage, onto a focus on knowledge assets (i.e. knowledge, organisation, scope for initiative) as the basis for competitive advantage and if the apolitical entities, which must lead in implementing such tactics, had been encouraged to do so.

9.7 SUMMARY

Australia's basic economic endowments such as minerals, agricultural produce and livestock had for long conditioned its economic development. Since the Second World War, efforts were made to diversify the economy in order that the country could rely less on its primary exports. However, Australia's economic development suffered largely on account of chronic short supply of foreign exchange and to that extent, governmental policy towards diversifying the economy through a process of industrialisation too failed.

Also, the greater flexibility of global exchange rates adversely affected the government's subsidy and support policies and impacted differentially between the protected domestic industries and the export sectors of the economy. Furthermore, influx of foreign capital into the economy demanded careful scrutiny by the federal government so that the inflow of foreign investment would not be detrimental to the process of domestic industrialisation.

Ever since 1960s, with the onset of the process of economic globalisation, the federal government appeared steadfast in its policy pronouncements to resolve the dilemma. In accordance with these stated policy objectives, institutional and policy changes were evolved. These demonstrated commitments to restructuring of the domestic economy together with trade liberalisation policy, according to the government, was fully justified because it would enable Australia to negotiate with some credibility in the international forums.

The poor performance and prospects of resource-based industries, which traditionally constituted a chunk of Australia's (about 80 per cent) exports, in fact, highlighted the need for a more competitive industry structure. It is in this uncertain economic climate that the federal government pressed ahead with economic restructuring and has undergone transformative changes in its economic development. From being a primary resource exporter in the past, today Australia has evolved into a fairly diversified economy with a potential to export manufactured goods and services alongside its traditional exports. More emphasis has been placed on deregulation, tariff reductions and competition policy with government 'assistance' programs on the basis of microeconomic theory.

Critics have highlighted the narrowly based development strategy of Australia. What it needs is a more comprehensive policy based on 'systemic' capabilities, which are needed within a productive industry cluster These capabilities include arrangements providing: market and technological intelligence; support in business development or innovation; and business-relevant training.

9.8 EXERCISES

1) Describe the post Second World War development strategy in Australia.

2) Briefly explain the restructuring of the Australian economy.

3) Critically examine the changing nature of Australian economy in the era of globalisation.

SUGGESTED READINGS

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