

Final Discussion

The discussion in the final session centred around three issues: the political economy of trade reform, the importance of the service sector and the links between openness and other policies.

The Political Economy of Trade Reform

Given that the intellectual debate concerning openness had been won by the advocates of liberalisation, a number of speakers thought that the principal challenge now was to prevent a reversal of this victory. One participant noted that there were two universal propositions that made this task difficult. The first is that 'when things get bad enough, you change what you are doing'. The second is that 'when you are in trouble, you blame foreigners'. The first proposition had been important in adopting a more outward-oriented strategy in the first place, but it now risked, in combination with the second proposition, generating pressure for a reversal. Resisting this pressure was difficult when groups in society blame international trade for developments they dislike, even when it is inappropriate to do so. To prevent such attacks from being successful requires the building of strong political coalitions in favour of an outward orientation.

Some speakers saw political considerations as important in determining the sequencing of liberalisation in Australia. In generating the political consensus for trade reform, it was important that the labour leaders did not play an obstructionist role. If the labour market had been deregulated prior to significant trade reform, some doubted that the political consensus to reduce tariffs could have been built. Increased labour market flexibility may now more easily be sold as part of a bundle of measures necessary to give the economy the flexibility that it needs to deal with its integration into the world economy. It was also suggested that the increased competition associated with trade reform was starting to break down employer associations. This was adding to the pressures on the centralised wage-fixation system.

The observation was made that in the past, increases in openness tended to be positively correlated with increases in the size of the public sector. This association probably arose because the more open the economy, the greater is the need to engage in income redistribution policies. If this is correct, then it is ironic that just at the time that government might naturally be playing a larger role, there were significant pressures limiting the size of government.

Others thought that the largest problem facing Australian trade policy was the potential corruption of the multilateral trading system by the establishment of regional trading arrangements. Open world trade has been an essential ingredient in the East Asian success stories and is important to Australia's continuing successful integration into the world economy. The case was made by one participant that significant changes to this system could be very costly for the Asian-Pacific area.

The Services Sector

A number of speakers mentioned that the discussion at the conference was heavily weighted towards manufacturing and away from services. They reiterated the conclusion from earlier discussions that increased integration had important direct and indirect implications for the markets for services as well as goods markets. Outward foreign direct investment, together with the direct provision of Australian services abroad, represented important channels through which Australia could exploit its considerable comparative advantage in many service industries. Inward foreign direct investment was seen as important in generating increased domestic competition, initially in goods markets but subsequently also in services. A number of participants also called for more rapid implementation of the recommendations in the Hilmer Report.

There was also a more general discussion of various aspects of the services sector. It was argued that, in many important cases, the output of services was not determined by market decisions, but rather reflected political and social decisions. Education and health services were offered as examples. Given the importance of these activities, some participants wondered whether the pressure on government to downsize was restricting the output of these services, and whether there were alternative equitable and efficient ways of providing and funding the services. It was also noted that analysis of the service industry was complicated by the problem of obtaining a satisfactory split of the change in nominal output between changes in real output and prices.

Trade and Other Policies

There was general agreement that increased openness, in itself, was insufficient to significantly increase the economy's growth rate. Much of the economy will always remain non-traded, and thus policies affecting the non-traded part of the economy are also important. One participant noted that in the past twenty years many countries had doubled their trade shares of GDP, while growth rates had been halved. In response, it was argued that it was difficult to draw conclusions concerning the growth-enhancing effects of trade, as the counterfactual was not clearly defined. In addition, increased openness was typically just one part of a wider program of reform.

There was general acceptance of the idea that strong, sustained economic growth still depends on appropriate training and education policies, the existence of competitive markets with limited distortions and the maintenance of low inflation and a sound fiscal balance. The critical point is that greater openness increases the incentives to get these policies right. These increased incentives come from a higher return to well-designed policies and greater costs to inappropriate policies. One participant suggested that the causation may also run the other way – that is, good domestic policies may encourage greater openness by making the economy more competitive.

The discussion then turned to what type of domestic policies maximised the returns to Australia's increased integration with the world economy. A number of participants agreed with the proposition that an important difference between those who are optimistic about Australia's future, and those who are pessimistic, rests on the judgment of whether the political obstacles to issues such as labour market reform and increased savings can be overcome. The optimists think that these obstacles are being broken down

and that the improved domestic policy, in conjunction with a greater outward orientation, will deliver faster growth.

On the issue of training, again there were no clear answers. While no-one disputed the general notion that training and learning were 'good', there were few concrete suggestions. It was noted that the evidence is unclear as to whether particular products or industries generated more learning than others. It was also suggested that the level of research and development was a relatively poor indicator of firm performance. In response, it was argued that a critical element in maximising firm performance was 'good management'. Exactly how good management skills should be developed was not addressed. There were also a number of calls for more attention to be given to the microeconomics of the training market. In particular, what are the distortions leading to sub-optimal training and what is the relationship between the social and private returns to training?