CONFERENCE PROCEEDINGS

ECONOMICS '93

A NATIONAL ECONOMICS TEACHERS' CONFERENCE

CREATING COMPETITIVE ADVANTAGE IN THE '90s

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Edited by Tim Riley

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The Economics Education Resource Centre

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EDITORIAL NOTE

This is the third book in a series which records the proceedings of a National Economics Teachers' Conference organised by the Economics Education Resource Centre. **Economics '93** was held at the Ramada Hotel in Surfers Paradise over July 1st and 2nd 1993.

Eleven papers were presented to the conference by economists and educators under the theme of '**Creating Competitive Advantage in the '90's**'. The program's theme examined the notion of competitiveness as espoused by Michael Porter, in his acclaimed book, *The Competitive Advantage of Nations* (1990, Macmillan). Each conference speaker applied the concept of competitiveness to a particular facet of the Australian economy in highlighting ways in which Australia might achieve and maintain a greater level of international competitiveness in its relations with the world economy.

I am indebted to all of the speakers who gave permission for their papers to be published and for their co-operation in dealing with matters of consistency in style and presentation. The quality of the content and analysis is indeed a reflection of the authors' attention to detail and their expertise in the topic areas treated. *Economics '93 Conference Proceedings* is thus a valuable collection of readings for secondary teachers of economics, students and librarians.

I wish to thank Andrew Davies for his creative and technical expertise in preparing the manuscript for publication. My thanks must also go to Maree Seage for her assistance in running the conference and to the staff of the Ramada Hotel for their efficient and friendly conference organisation. Above all I would like to thank the 100 or so teachers from all over Australia who attended the conference, and the resource exhibitors who gave their support to the conference exhibition. Many of the interstate attendees were able to come to the conference because of travel grants made available by the John Bonython Lecture and Scholarship Fund of the Centre for Independent Studies.

Finally I would like to acknowledge the considerable financial support of the Australian Stock Exchange, Coca-Cola Amatil and the Australian Bankers' Association in sponsoring Economics '93.

Tim Riley
Director
The Economics Education Resource Centre

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INTRODUCTION

TIM RILEY

The Economics '93 Conference focussed on both the theoretical and policy implications for Australia's economy of Michael Porter's influential book, *The Competitive Advantage of Nations* (1990, Macmillan). The eleven conference speakers were given the challenging task of relating their specialised topic presentations to the conference theme of **'Creating Competitive Advantage in the '90's'**. Whilst many of the papers concentrated on Australian trade issues, others were able to develop ideas about the notion of competitive advantage as applied to fields such as education, wage determination, economic reform and income distribution.

Carolyn Grainger in opening the conference, spoke about the role of education in a competitive economy and the challenges facing teachers in preparing their students for an increasingly internationalised Australian economy. Her main message was that whilst educational reform is presently fashionable, we must be careful not to blame education alone for our poor economic performance. We also need to think critically about whether we want a broad based, general education system or move to a vocational education model, such as that evident in Germany.

With the publication of his best selling books *Competitive Strategy* (1980) and *Competitive Advantage* (1985), Michael E. Porter of the Harvard Business School established himself as one of the world's leading authorities on competitive advantage. He has constructed a new paradigm which attempts to explain why some firms, industries and nations are more competitive than others in global markets and what factors underlie this phenomenon.

Professor Peter Lloyd (University of Melbourne), a respected expert on trade issues, discusses Porter's theory and its implications for Australia's trade opportunities in Asia. The new paradigm stresses the behaviour of individual firms in contrast to the traditional theories of comparative advantage which emphasise endowments of land, labour and capital as the determinants of a country's relative costs of production. In Porter's view there are four factors which determine a firm's competitiveness: firm strategy; structure and rivalry; demand conditions; and related and supporting industries. He calls these four factors 'the diamond'. Professor Lloyd argues that despite Australia's natural resource endowments, it has failed to participate in the boom in world trade since the 1960's.

Associate Professor Doug McTaggart from Bond University pursues the notion of competitiveness by giving several definitions of the concept and the main ways by which competitiveness can be measured: calculating and comparing real unit labour costs and the CPI based real effective exchange rate. His major conclusions are that keeping inflation low and allowing the exchange rate to float free of intervention by the Reserve Bank are vital aims of monetary policy if Australia is to maintain competitiveness in world trade.

Gary Banks from the Industry Commission looks at the role of microeconomic reform in improving the operation of product and factor markets as well as raising the efficiency of government trading enterprises. These are the crucial avenues of economic reform for raising the competitiveness of Australian industry. He cites many examples of consumer benefits such as lower prices, improved service, product innovation and better technology which successful microeconomic reforms could achieve.

Case studies (mining and the capital market) of export success are presented in papers by **Roger Harding** (BHP Australia Coal) and **Alex Frino** (University of Sydney). Roger traces the early development of BHP's coal mining activities and the company's commitment to remaining one of the world's leading coal exporters by adopting quality assurance principles and developing an industrial relations policy conducive to achieving on-going productivity improvements. Alex's paper outlines the vital role played by the Australian Stock Exchange (ASX) in mobilising both equity and debt finance for investment purposes. He discusses at length the deregulation of the ASX's operations in improving the operating efficiency of the securities industry.

Day two of the conference featured papers presented on interactive teaching strategies, business-education links, labour market reform, economic reform in Eastern Europe and China and the changing pattern of income and wealth.

Ted Hook from the University of Queensland issues a challenge to all teachers to establish mutually beneficial business-education links between their school and a business (local, state or national) or industry group. He discusses the Business Council of Australia's NIEF (National Industry Education Forum) initiative and the implications of *Australia 2010* for future trends in education.

Lyle Kirkwood's 'Interactive Teaching Strategies' explains the mechanics of using strategies such as 'find your other half', and highlights the advantages and disadvantages of using such strategies in the classroom. Other strategies discussed include: 'jig-saw grouping', hypothesising, making collages, using charts and various simulation games. Interactive strategies provide one of the important means of helping students to think creatively in an increasingly competitive world.

One of the key areas of reform is the labour market. **Professor Rod Treyvaud** (UNE Northern Rivers) explains the distinction between the three major models of enterprise bargaining. He argues that Australia's multifactor productivity has stagnated since the 1980s and that enterprise bargaining under Accord Mark VII is not likely to improve the performance of

Australian industry. Clearly, until there is a resurgence in investment, productivity gains will continue to be sourced from downsizing of labour forces at the enterprise level.

In contrast to Australia, economic reform in the former command economies of Eastern Europe and the Soviet Union is a huge task. **Dr Gary Chittick** (Queensland University of Technology) examines the difficulty of transformation to a market economy and the role that Western assistance may play in the process. China's reform process is well under way and Dr Chittick argues that there are many opportunities for Australian trade in Asia.

The distribution of the gains from trade or improved competitiveness is dependent upon the size of the gains and how evenly they are spread throughout the Australian community. The University of Queensland's **Associate Professor John Mangan** presents evidence of increasing income inequality in Australia. This is because of specific labour market changes (e.g. the working poor) and the presence of labour market hysterisis (the tendency for long term unemployment to start from a higher base with every recession). In addition to these factors, the process of economic reform including internationalisation will lead to some labour displacement but create more employment opportunities in the long run. The question for policy makers is to ensure that the gains from enhanced competitiveness filter down to those displaced by the reform process.

Economics '93 Conference Proceedings is an interesting and useful collection of papers for teachers and students of economics because it applies the concept of 'competitive advantage' to the Australian experience. It is this link between economic theory and the real economy which makes the study and teaching of economics such an exciting and challenging endeavour. National conferences are also important vehicles for bringing together teachers and economists who can focus on national issues common to state curriculums. The final positive feature of this collection is that it is a summary of the major issues affecting Australia's trade in the 1990s, particularly trade with the fast growing Asian region.

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THE ROLE OF EDUCATION IN A COMPETITIVE ECONOMY: CREATING COMPETITIVE ADVANTAGE IN THE 90S

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THE ROLE OF EDUCATION IN A COMPETITIVE ECONOMY: CREATING COMPETITIVE ADVANTAGE IN THE 90S

CAROLYN GRAINGER

In a recent article in *The Australian*, P. P. McGuinness expressed forcefully his views on the failings of education to contribute to the well-being of Australian society. McGuinness claimed:

> Just about all the problems of this country – economic, social and moral – can in the last analysis be traced to a single source: the education system. This has over the years become infested with such a number of self-serving and time-serving mediocrities that education, training and research are stifled.[1]

While most Australians would have some reservations about the efficacy of the education system, it is unlikely that they would demonise education as the sole cause of the decline of civilisation as we know it. They might suspect that the economic, social and moral problems of this country have more complex origins and require more subtle analysis than are described in the fulminations of a lapsed Marxist economist turned professional stirrer. Nevertheless most Australians would share with McGuinness an abiding faith in the power of the education system to set an individual and a nation on the path of righteousness; whether that path be economic, social or moral.

Such faith is touching. But as with most articles of faith, it is a fixed, bright-coloured, two-dimensional version of multi-layered, shifting realities. At the very least, the assumptions people make about the power of education to cure the ills of individuals and society bear critical examination.

The evidence that participation in education provides competitive advantage for individuals is indisputable, and has been comprehensively reviewed recently by Maglen[2]. Those with more education have higher than average work force participation rates and lower unemployment rates than those with less education. Better educated individuals establish earnings advantages early in their working lives and these advantages increase over time. Those with degrees do better than those with diplomas who, in turn, do better than those with trade certificates. Those with no post school certificates do worst of all. The advantage of being more educated over less educated is more marked among females than males. It should nevertheless be said that the economic advantage provided by education is decreasing and in Australia this trend has been discernible since the Sixties.

While the power of education to affect the life-chances of individuals has been demonstrated, its power to effect improvements in the wealth of nations and the channels through which it brings this power to bear are less clear. While both Ergas (1984)[3] and Porter (1990)[4] suggest that education and training are important to economic growth, neither demonstrates the connections. As with most researchers in the field, the linkages are assumed rather than untangled. Certainly countries such as Japan, the Federal Republic of Germany, the United States and Sweden have invested heavily in education over the years and have apparently created a competitive advantage as a result. But the approaches adopted are so fundamentally different that they provide little guidance to policy makers intent on effecting economic improvements through education.

Education's contribution to past economic formations has been evaluated more by social commentators than economists. In describing the supposed linkages between education and the economy of an industrial society, Alvin Toffler (1970) argues:

> Mass education was the ingenious machine constructed by industrialism to produce the kinds of adults it needed ... The idea of assembling (masses of) students (raw material) to be processed by teachers (workers) in a centrally located school (factory) was a stroke of industrial genius... The inner life of the school thus became an anticipatory mirror, a perfect introduction to industrial society...[5]

Reflections on the contribution of education to past economic development provide little help in determining the way forward. Currently there is wide-ranging debate about the contribution education makes, might make, or should make in creating competitive advantage in a changing economy. Ironically, the present 'uncertainty' comes at a time when government efforts to expand educational services have been profound.

Recent Trends in Education

The decade from 1982 to 1992 marked a rapid increase in participation in formal education. More and more youth remained at school beyond the post-compulsory years. Year 12 retention rates rose above 70 per cent. Full-time participation rates for the 15 to 19 year old cohort increased from 46 per cent to 56 per cent. The number of students in higher education increased from 341 390 to 559 365, an increase of 64 per cent. The number of students commencing undergraduate courses increased by 68 per cent and there was a 61 per cent increase in course completions. Because it is a relatively 'free' education system the increase in government funding has been substantial.

Increased spending on education was justified by reference to equity considerations but such considerations sit within a concern for the common good and the national interest, in particular the nation's economic interest.

Porter, Lingard and Knight (1993)[6] argue that because 'the Australian state has taken on the role of ensuring economic restructuring and greater productivity', all sectors of education have been re-configured as a crucial component of that economic agenda.

Until recent times, comments from the business community on the contribution of education to the economy focused on its perceived failings. Unfortunately, these critics were notably short of constrictive comment. More than a decade ago, for example, the Ahern Committee noted that despite agitation from the business community for education reform, members of the Committee:

> were particularly disappointed to find that submissions from employers and employer groups contained no definitive statements of the standards they require. (First Interim Report 6.4)

This negativity continued through the 1980s as is evidenced by an article in the *Business Review Weekly* of 15 May, 1987 where it was claimed:

> while what business has to say on the negative side is clear enough, it is still hopelessly imprecise about what it wants from education and how it thinks the system can best produce it.

Times have changed. Business throughout the world has finally got an act together. Whether it is the right act or not remains problematic. In Britain, the reform process is being driven by the 1991 White Paper *Education and Training for the 21st Century*. In the United States an agenda was established by *America 2000: The President's Education Strategy*, which outlined new directions for education and training. In Australia the work of Finn, Deveson, Carmichael and Mayer provides the drive for radical new directions.

In all countries, the issues identified and the solutions proposed are remarkably similar. These reports bear testimony to what Finn (1991) describes as:

> the shared belief that international economic competitiveness, as well as domestic social well-being, is increasingly dependent on a nation's ability to produce a well-trained, flexible work force and to develop enterprises which enable all employees at all levels to contribute to their full potential[7].

While there is general agreement with this proposition, there is no consensus as to what this means in terms of policy prescriptions. Nothing illustrates this lack of consensus more vividly than the diametrically opposed approaches adopted by the two post-war economic miracle economies, Japan and West Germany.

The Japanese and German Models of Education

On the one hand, there is the approach adopted in Japan which rejects preparation for vocational specialisation at any level of education, particularly school-level education. In Japan, the emphasis in schools is on a broad-based, general education. Such an approach is in harmony with the demands of the labour market because employers are concerned with a potential employee's willingness and ability to learn on the job. They are not concerned with whether or not the employee has specific vocational skills for at least two reasons.

First, they believe that if the potential employee has an appropriate, broad education then the skills and knowledge will be acquired rapidly. **Second**, they believe that today's skills and knowledge will become obsolete very quickly. Certainly the Japanese government is committed to the attainment of high levels of training and skills, but it is the responsibility of Japanese industry to make such provision. It is not the responsibility of the schools. The responsibility of schools is to provide a broad-based, general education which serves as the foundation for future training and re-training.

On the other hand we have the approach adopted in the Federal Republic of Germany. In Germany great emphasis is placed on vocational education and training as part of school education. About half of the age cohort proceeds to Years 10 and 11, with approximately 30 per cent continuing to Years 12 and 13. Approximately 20 per cent enter tertiary education. More than 65 per cent of post-compulsory school students enter a system which offers vocational education. This vocational education usually involves three days a week on-the-job training with the remaining time devoted to attendance at vocational schools.

In Germany, it is a national objective that every person entering the labour market should be occupationally competent and qualified either as a skilled worker or as a graduate from higher education. For the 10 per cent who have not decided on a vocation, there are various one-year pre-vocational courses in high schools or vocational schools. Thus virtually everybody is in education, or education plus training, up to the age of 18.

Until recent times the Australian approach to education and the economy had much more in common with the general education approach adopted by Japan rather than the German model. The idea of early vocational specialisation that we find in Germany was considered inappropriate for Australians.

New Directions in Australian Education

The new directions for Australian education were first signalled by the report titled *Young People's Participation in Post-Compulsory Education and Training* (the Finn Report). The Finn Report recommended:

- a convergence of vocational and general education;
- the establishment of Key Competencies for students leaving Year 12; and
- the establishment of target retention rates over the next several years.

The directions recommended by the Finn Report have been supported by the Employment and Skills Formation Council report on the *Australian Vocational Certificate Training System* (the Carmichael Report). The Carmichael Report advocated, in addition to the above:

- a competency-based education and training system;
- recognition of prior learning and articulation; and
- credit transfer to higher levels of competence as defined by the Australian Standards Framework.

The push towards 'a convergence of vocational and general education' is not without its dangers, particularly if general education is truncated too early. Moreover it is important that conceptual clarity be established. Maglen (1993)[8] draws important distinctions between:

- compulsory and post-compulsory education;
- general and vocational education;
- pre-employment education and employment-related training; and
- general and specific training.

While he finds that vocational education has more employment and earnings potential than general education, he also makes it clear that the broad term 'vocational education' bandied about in the current debate is both oversimplified and potentially misleading.
He says:

> 'Vocational courses that lead to degrees and to the professional occupations are better in this respect than those that only come up with certificates, and these in turn have a better record than trade qualifications ... Those who would wish to direct more students into TAFE programs have a lot of convincing to do ...'.[9]

In the same study, he finds also that:

- the direct evidence of the contribution educational expansion can make to improving Australia's competitive position is weak and inconclusive;
- there is considerable evidence in support of the contention that employment-related training has a much more direct impact on productivity than does education;

- the performance of the Australian economy over the period of sustained educational expansion . . . is particularly disappointing . . . there does not appear any magic amount and/or combination of education and training that economically successful nations have achieved, and the less successful ones have not, such that if the latter were able to match the former, they too would be successful.

He argues further:

> It would appear much more efficient, and in the end, much more equitable if resources were diverted to:
>
> - improving the quality of lower levels of education, to raising the basic standards of education received by all young people, especially the average and below average students at the primary and secondary levels; and
> - developing much more thorough, well-structured and properly supported employment-related training programs.

He concludes that:

> Ensuring that all young people are thoroughly grounded in the fundamental cognitive skills of literacy (including these days computer literacy) and numeracy, and have a sound knowledge of the history and geography of the world in which they live, etc. must therefore be the major contribution education can make to productivity.

In their joint submission to the Finn Review, the six leading employer organisations in Australia argued that the principal role of schools should not be to provide occupation-specific skills. Rather, schools should be concerned with:

- strong levels of competence in literacy and numeracy;
- analytical thinking and problem-solving abilities;
- creative and expressive talents;
- personal qualities of responsibility, initiative, creativity, adaptability, co-operativeness and self confidence.

The Finn Report (1991) itself agreed that:

> . . . employers are more clearly articulating their desire for the school system to provide young people with a foundation of basic skills and a range of broad skills and attributes which are generally relevant to the world of work without being occupation- or industry-specific. (Page 6)

We should therefore be cautious in our assessment of two currently fashionable propositions.

The first is that education is a universal panacea for what ails us. There is no doubt that it is a potentially powerful influence on society, helping to shape our perceptions of ourselves and of what is right or wrong in the eyes of society, helping to fit us for the world of work and helping us to become functional in society. But, to confine these remarks solely to the economic influence, it is far from proven that education alone can work the miracle the policy makers seek. There is an equally strong case to be made for the proposition that the most effective strategy for economic improvement in Australia would be compulsory retraining for all senior managers – though one must doubt that this prescription would be greeted with much enthusiasm.

The second proposition is that education should become more 'vocational' and less general. Here there are several pitfalls. As Maglen has shown, the very term covers a spectrum from a TAFE certificate in hygiene to a post-graduate degree in brain surgery, both admirable in their way but hardly comparable in their contribution to the economic well being of the individual and of society.

Another danger is that, like the generals who notoriously train their armies to fight the last war rather than the next, our policy makers will train our youth for the industrial revolutions of the mid-twentieth century instead of preparing them for the unknown demands of the twenty-first. Despite the nostalgia of Carmichael for a world of firm-jawed worker heroes with large spanners in their hands, the evidence of business and industry is that they favour general skills and attitudes of understanding and co-operation.

The German training model which so entranced Carmichael originated in the nineteenth century. It consistently produced world-beating heavy industry and military forces. Funded lavishly by the USA after World War Two as a counterweight to Soviet Russia, German industry and its work force continued to perform superbly in its traditional fields. One may legitimately question, however, whether the German training model that Carmichael saw would be sufficiently adaptable to cope with the demands of a twenty-first century, post-industrial, information-oriented society. This is not to question the ability of Germany and German educationists to change, but rather to question the suitability of an old model for today's Australia.

Let us therefore value education, but not build a cargo-cult around it. Let us value it as the primary system for socialising our youth, without expecting it to do everything that we as individuals and as a society should be doing. Let us regard it neither as our philosopher's stone nor our scapegoat. And let us finally bear in mind that education should give our children more than a glimpse of the factory bench. It should give them a window to the world.

Notes

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AUSTRALIA'S TRADE OPPORTUNITIES IN ASIA

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AUSTRALIA'S TRADE OPPORTUNITIES IN ASIA

PETER J. LLOYD

Australia's Trading Problems

The international trading problems of the Australian economy are constantly in the news. The general impression is that the international trade sector of the economy is performing badly and the conclusion which many columnists and editors draw is that the government must do something about this, usually in the form of restoring protection or giving other forms of assistance to the producers of tradeable commodities. We need *further* diagnosis of the problems and a careful assessment of their causes and the prospects for international trade before any recommendations to change government policies should be considered.

The **first set of problems** which receive much attention are the increases in imports of certain products, chiefly import-competing manufacturing industries such as the clothing, textiles and footwear and the motor vehicle groups and the associated problems of reduced employment in these industries. These problems are very real though there is ample scope for disagreement over the causes. I will return to this issue at the end of my paper.

The **second important problem** is the chronic balance of payments problem. Australia has been a net borrower for most of the period since European settlement. In the two decades of the Sixties and the Seventies, the deficit on the current account averaged 2.5 per cent of GDP but since 1980-81 it has never fallen below 3.0 per cent. The forecasts for the current year are about 4 per cent which, if realised, will probably be the largest among all the OECD countries. These accumulated deficits have caused a sharp increase in the external debt to GDP ratio which has become the focus of national debate.

The **third problem** is the least well recognised. This is the low ratio of international trade to GDP. This is most commonly measured by the ratio of the value of exports plus imports of goods and services to GDP, expressed as a percentage. In 1991–92 , the ratio was 35.3 per cent for Australia. Now one expects, for a country which is well endowed with natural resources and more remote from the major world markets, the ratio to be lower than those of most other countries but this ratio is the lowest trade ratio of all the OECD countries. Moreover, the Australian ratio was constant throughout the period of the 60s, 70s and 80s, while that of almost all of the other OECD countries climbed rapidly and consistently. Australia has failed to participate in the boom in world trade that has been going on now almost without interruption for more than three decades.

The **last feature** is the most important because it is a fundamental determinant of the average real incomes in the Australian economy. **Trade liberalisation or free trade**, and balanced or unbalanced trade are not objectives of national economic policy. They are policies which are important only if they enhance the national economic performance in raising our aggregate real incomes and achieving a more desirable distribution of these incomes.

Trade liberalisation improves the long run performance of the economy by allocating resources to more productive areas and increasing competition in the economy. The slow growth of international trade has been associated with a rate of growth of real GDP per capita which has been low in Australia over the last decade, relative to most other OECD countries and relative to our more favourable performance in the preceding three decades. Part of the poor trade participation is due to the fall in the prices for wool, wheat and many of our mineral exports that have been depressed in the current world recession and our commodity terms of trade have trended downwards over a longer period. But most of it is attributable to the barriers to trade imposed by Australia, especially to trade in manufactures, which has been the booming area of world trade (along with services) and which has been heavily protected in Australia until the cuts in tariffs and quotas begun in 1988 and 1991, and also the barriers to our exports of agricultural and mineral products.

Similarly, the deficit on the current account is important not because of its size or any argument about the increase in payments to service the debt but because it reflects the long run performance of the macroeconomy. The current account deficit reflects a macroeconomic imbalance between income and spending. When the current account deficit is 4 per cent of GDP, it means that for every $100 spent by the whole nation on all goods and services $4 is financed by borrowing overseas or by selling off national assets rather than using our national income. This is a sensible policy if the borrowing increases our productive capacity and thereby generates additional income which can be used to repay the net borrowings. Unfortunately, the increase in net national borrowing since the early 80s has not been associated with an increase in the rate of capital formation and indeed this has trended downwards, especially for private sector investment. Thus we have used the increase in net borrowing to increase current spending by the private and public sectors.

These three features are related to each other. As an example of these interrelationships, many commentators observe that lowering the trade barriers increases the import competition and the structural adjustments imposed on import-competing activities, and it increases aggregate imports and thereby contributes to our balance of payments problems. True but these are the proximate effects only. An increase in the balance of payments deficits by itself will put upward pressure on the exchange rate, which will then reduce the levels of some imports and boost those of some exports. If there is no destabilising speculation in foreign exchange markets or changes in the conditions of demand and supply for international capital movements, a lowering of import trade barriers will boost both exports and imports without changing the balance of payments. (It will, however, cause structural adjustment problems for some industries as resources do not move easily from one set of activities to another.)

What then is the ultimate cause of the balance of payments deficits? That is, what is the cause of the increase in national expenditure over national income? There are several possibilities. One is recession but this is not plausible as the recession is clearly depressing aggregate national expenditure including imports of goods and services. Another is the decline in our terms of trade on world markets. This contributes in the short run but in the long run if goods and labour markets as well as foreign exchange markets are reasonably flexible they will encourage the shifts of resources and restore balance of payments equilibrium. One candidate is the liberalisation of the domestic financial and foreign exchange markets in the early 80s. This was a change in government policies independent of other trade events and policies, an exogenous event in the language of economics, which caused an increase in capital inflow as Australia was regarded by overseas investors as a secure and attractive location for long term investments. I shall return to this theme later.

The most important implication of these changes is the urgent need to adopt policies which will induce a higher rate of growth of real output of the Australian economy. This will allow us to absorb the large pool of unemployed and underemployed resources in the economy, as the government is currently arguing, including those who have become unemployed in industries subject to reduced trade protection. (This pool of underemployed resources can be looked upon as a potential contributor to this growth if the right policies are adopted). Higher growth will also allow us to repay past borrowings and perhaps to increase the debt further. Most importantly, economic growth is desirable in itself for the higher real incomes and the greater choices it brings for the economy in the ways in which higher output may be spent: for example, in maintaining or improving the quality of the environment.

Gradually in recent years there has been a growing recognition that too much of the focus of economic policies has been on the short term management of the economy and that the short term macroeconmic problems are related to the poor long term performance of the economy. We must increase the priority given to growth-inducing policies. There has not been a major investigation of the growth performance of the Australian economy since the Vernon Committee Report of 1965. I shall consider the issues of competitiveness and trade policy and the role of Asian markets from this perspective.

Where are the Export Opportunities?

No economist should attempt to predict where the growth in exports will occur. The essence of a market economy is that the actual pattern of exports will be selected by market agents and it is foolhardy for an economist to try to second guess the many changes in market supply and demand. However, one can make general observations about trends.

Trends in Commodities

The commodity trading pattern of Australia is, by comparison with all other OECD countries except New Zealand, peculiar. Australian exports have always been and still are dominated by agricultural and mineral products, that is, by primary products. In 1991–92 primary products accounted for 62.7 per cent of the total value of merchandise exports (see Department of Foreign Affairs and Trade, 1992). This reflects the large endowments of land relative to capital and labour resources. Manufactures and especially what are called '**elaborately transformed manufactures**' have grown more rapidly since the early 1980s. Moreover, in 1991–92, 62 per cent of the total primary exports were 'unprocessed', that is, requiring little or no processing. Thus 38.4 per cent of total merchandise exports are unprocessed agricultural or primary products. This percentage is lower than it was a few years ago but it is still amazingly high for a high income country.

One should examine the total trade in goods **and** services because there is no reason to give preference to trade in goods over trade in services. In 1991 exports of services were 20.4 per cent of total Australian exports of goods and services, compared to 20.3 for all industrial countries as a group (IMF, 1992). Thus the specialisation of Australia in unprocessed primary products is equally true of the total trade in goods and services.

This pattern of export specialisation is a part of our trading problems. It has reduced the opportunities for participating in the rapid and sustained growth in world consumption and trade over the last three decades. The GATT calculates the growth in the volume of world exports by major product groups. Over the period 1983–1990, world exports of agricultural products grew at a mere 2 per cent annum compared to 4 per cent for mining products and 7.5 per cent for manufactures (GATT, 1992a).

The slow growth in the volume of trade in primary products is due to two factors, the slow growth of world consumption and the severe restrictions on world trade in both agricultural and mineral products. (See Lloyd, 1993, pp. 226–229 for further discussion). The former is being partially addressed by the current Uruguay Round of negotiations under the aegis of the GATT. Even if this is successful in reducing the border barriers to world trade and the export subsidies which further distort this trade, the former factor of the rate of growth of consumption will be the main determinant in the long run of the export possibilities for this product group. Lower trade barriers will give a once-for-all boost to exports only.

The specialisation in primary products has a second adverse effect on Australian trade. The commodity terms of trade for Australia fluctuate annually to a much greater extent than most OECD countries, primarily because the prices of our primary exports are more volatile but also significantly because these price fluctuations are positively correlated with each other and not offset by fluctuations in import prices.

Australia must put much more emphasis on the development of non-primary products if it is to share in the growth of international trade and gains from trade. Over the last five years or so Australian exports of manufactures have grown rapidly relative to both our historical record and to other OECD countries. The exports of so-called 'elaborately transformed manufactures' (ETMs) have recorded the fastest rate of growth in recent years. They grew by 12.8 per cent in the 1991–92, following a growth of 22.3 per cent in 1990-91, and now constitute 14.5 per cent of total commodity exports of Australian produce compared to only 8.8 per cent six years ago. (See Department of Foreign Affairs and Trade, 1992 for details.)

In a recent forecasting exercise the Bureau of Industry Economics (BIE, 1992) forecast that the value of manufacturing exports would increase by 47 per cent over the five years 1990–91 to 1995–96. The fastest growth in manufacturing exports would occur in high-technology industry, including information industries, aircraft and parts, scientific instruments and pharmaceuticals.

There are also good opportunities for the growth in trade in services. The world growth in service trade can only be measured in terms of value because there are no reliable price measures for service trade generally. Over the decade 1980–90, the annual average growth of the value of service trade was 7.5 per cent, compared to 5.5 per cent for the value of merchandise trade (GATT 1992b, Table 1.1). Travel and transportation are two of the eight product groups which the GATT (1992a, Table 3) lists as expanding faster than world trade generally. As there is no general reason to believe that the increase in prices for services will have been significantly greater than those for merchandise exports, this increase in the value of service trade should reflect a faster increase in the volume of trade in services.

The BIE (1992) study forecasts that exports of services by Australia will increase by 52 per cent over the period 1990–91 to 1995–96. There are opportunities for export growth in non-traditional areas of service provision. For example, exports of education services, which are not reported separately in international trade statistics, have grown very rapidly in Australia over the last decade. There are opportunities too for increasing our exports of medical services to overseas residents.

Trends in the Asia Region

The term Asia will be taken to mean East Asia, that is, the North (East) Asian countries of Japan, Hong Kong, South Korea, Taiwan, and China and the South Asian countries of the ASEAN bloc and Mekong delta countries. For some purposes it is useful to distinguish between the old 'capitalist' countries of Japan, Hong Kong, South Korea, Taiwan and the ASEAN countries, from China and the other 'socialist' countries, though this distinction is rapidly becoming less relevant.

The Asian region has two outstanding features in this context. It has become the most rapidly growing region of the world in terms of real output and even more so in terms of real output per capita because of low and falling rates of population increase in the region. This rapid growth has spread from Japan and the Four Tigers (Hong Kong, South Korea, Taiwan and Singapore) first to Malaysia, Indonesia and Thailand and more recently to China and Vietnam. And this rate of growth is accelerating for the region as a whole during a period when the rates of growth of the OECD countries excluding Japan is decelerating. Even in 1993 the growth rates of aggregate real output for these countries have been predicted by the Asian Development Bank to be approaching 8 per cent, compared to a prediction of around 3 per cent for the OECD countries.

Asia is also the region of the world economy in which international trade has been growing most rapidly. Over the last twenty years the share of the Asian countries in world commodity import trade has almost doubled from under 8 per cent at the start of the 1960s to 14.8 per cent in 1989, the last year for which statistics on a global basis were available. This reflects the impressive economic performance of this group of countries.

Trade should also encompass international capital flows and trade in technology. This Asian growth trend is even more marked in capital flows because of the rapid increases in the surpluses of Japan and the emergence of surpluses on the current accounts of the balance of payments of Taiwan, South Korea and Singapore in the late 1980s. Garnaut (1989, p. 81 and Table 4.1) notes that the countries of North East Asia are much more important in total world savings and investment than they are in total world trade because of their very high savings rates. These statistics relate to net flows and to the net investment in all forms: direct foreign investments, portfolio and other investments. From the point of view of the link between investment and trade flows, perhaps the most useful series are those relating to the gross outward flows in the form of direct investment abroad. By 1990, Japan alone accounted for 21 per cent of the reported direct investment abroad in the world economy (International Monetary Fund, 1991, Table C.17) whereas in 1985 it accounted for only 11 per cent.

Furthermore, the flows of trade have been increasing within the region, and this preference (statistically speaking) for intra-area trading has, unlike Europe, become more marked. Consider the intra-area share of imports of commodity trade. For OECD Europe, this measure has been high and tended to increase slowly throughout the period, from 56.4 per cent in 1964 to 69 per cent in 1987. For North America, this share is much lower and has fallen from a peak of 40.5 per cent in 1969 to only 27 per cent in 1988. For Asia, the intra-region share of import trade has roughly doubled between 1964 and 1988 from 20 per cent to 41 per cent. For the combined Asia-Pacific region, the share of intra-area imports has also increased rapidly throughout the period and is now about the same as that in Europe.

The increase in **intra-area commodity trade** (and trade in services, investment and technology transfers) is all the more remarkable as this region is the least regionalised in the sense of the formation of regional trading arrangements which discriminate in trade flows and therefore tend to increase the intra-area share of trade compared to what it would be in their absence. In Asia, ASEAN remains the only regional trading arrangement and there is none in the North Asia sub-region. By contrast, there have been many arrangements in Europe, Africa, Latin America and the Caribbean.

There has been significant freeing of trade in the Asian region over the last two decades. GATT (1992, Appendix Table) provides a list of 63 countries which have undertaken unilateral reductions in protection *vis-a-vis* all trading partners since the start of the Uruguay Round in 1986, nine of these being in the Asian Region as defined here. These are Japan, South Korea, China, Macau, Indonesia, Thailand, Philippines, Malaysia and Singapore. In addition, Japan has taken measures to free trade in certain commodities after bilateral negotiations with the US: for example, the 1988 US-Australia-Japan beef negotiations and the 1990 Structural Impediments Initiative. Many of the reductions in Asian countries have been substantial. By comparison the non-regional reductions in the EC and the US have been much less comprehensive.

The rapid growth in Asian trade means that there will be more opportunities for increased exports to these markets, provided of course that the Asian growth continues. The growth in international trade has been due proximately to two factors, the rapid growth of real incomes and markets in these countries and the opening of these economies to greater international trade. (This begs the important question of whether the growth of real incomes is itself, at least in part, caused by the opening up to international trade of these economies.) This will provide opportunities for all commodity groups, but the growth will be more rapid in services and manufactures.

In the light of these trends, it is not surprising that Australian exports to the Asian region have been increasing as a proportion of our total exports. East Asia (that is, both North and South East Asia) is now the largest regional destination for Australian exports, accounting for 58.4 per cent of total merchandise exports of Australian produce in 1991–92. This compares to 50.5 per cent in only 1987–88 and a much lower proportion in early years. Exports to East Asia have contributed four fifths of the growth in these exports since 1987–88. One should note that our exports to Asian markets are still predominantly primary products and simply transformed manufactures. Thus, Australia is still basically a supplier of raw materials and simply transformed manufactures to these markets.

Globalisation

The term 'globalisation' was coined to denote the movement of capital and technology by multinational corporations around global markets in order to minimise the costs of producing the final goods and services and to market these goods and services worldwide. For final goods which are manufactured in several stages, the manufacturers can source the produced inputs at each stage from the cheapest location around the world. This leads to **intra-industry trade** in components and materials, often involving trade between branches and subsidiaries of the same multinational corporations. Much of the expansion of world commodity trade has been of this type of investment-led intra-firm and intra-industry trade.

This pattern of investment-led intra-industry trade is particularly prominent in Asia. Fukasaku (1992) documents the growth of intra-industry trade for the Asian countries over the period 1979 to 1988. He attributes this increase in intra-industry trade principally to the globalisation of corporate activities, which involves assembly production based on imported parts and components in different countries and then selling and competing on global markets. This first occurred from the US during the 1980s and more recently from Japan and from Hong Kong, South Korea, Singapore and Taiwan which are sometimes known as the Four Tigers or Four Dragons. Japanese and more recently other Asian corporations have moved towards more globally integrated operations. Many of these operations have been in the Asian region, accounting for the rapid growth of commodity trade and investment and technology transfers in the Asian sub-region. This has created a new form of trade-and-investment interdependence in the region.

One implication of these trends is that overseas investments in Australian-based activities can be an important spur to our exports if they are directed to activities for which there are export opportunities (see McKinsey and Company, 1993, Chapter 4).

Another implication is that some of the growth in Australian exports of goods and services will take the place of Australian investments in plants offshore for exports to third country markets or back to Australia. During the 80s, Australia's main offshore operations have been in the US, New Zealand and more recently in the European Community in anticipation of the establishment of the Single European Market from 1 January 1992 (see Business Council of Australia, 1992) but the most rapid growth is now in East Asia, especially in the Special Economic Zone of the Pearl River Delta region that borders Hong Kong.

Many Australians complain that the relocation of manufacturing activities offshore takes jobs away from Australians previously employed in factories in Australia. However, one should recognise that the profits earned and management incomes are part of the exports of services and that Australian-produced materials, parts and components are supplied to these overseas plants. In any case, some of these establishments in Australia would have closed if there were no offshore operations. Furthermore, offshore plants may lead to increased exports from onshore production through the acquisition of market information and contacts and new products or technologies. The McKinsey survey of manufacturing companies showed that only 10 per cent of Australian companies which went offshore reduced their exports from Australia. Offshore production should be looked upon as a part of the global chain of specialisation within industries.

Competitiveness

A lot of the debate in management and government circles has centred on the work of Michael Porter. Porter (1990, chapter 1) advances a new paradigm of 'competitive advantage' which he sees as being in opposition to and superior to the traditional economists' concept of comparative advantage. 'A new theory must move beyond the comparative advantage to the competitive advantage of the nation.' (Porter, 1990, p. 20). His theory stresses the behaviour of individual firms in contrast to the traditional theories which emphasise industries and the economy-wide endowments of capital, labour and land as the determinants of a country's relative costs of production. In Porter's view there are four factors which determine a firm's competitiveness: firm strategy, structure and rivalry; factor conditions; demand conditions; and related and supporting industries. He calls these four factors 'The Diamond'.

There are important differences between the Porter view and the theories of comparative advantage, especially his emphasis on firm-level product and process innovation and created factors. These factors deserve greater emphasis, I agree, but the differences between the Porter view and those of the theory of comparative advantage have been exaggerated. On the one hand, most of the Porter factors reduce to economic determinants, including the availability and prices of primary and intermediate inputs, and on the other, many of the more modern theories of intra-industry trade emphasise the same firm-specific factors of product variation, technology, firm size and competitive strategies as Porter does. Competitive advantage is consistent with comparative advantage.

Porter draws an analogy between the trade of firms and that of nations. Firms lose when they become non-competitive and, so in his view, do nations. The role of a nation's industrial policy is, according to Porter (1992, chapter 12), to amplify the forces within the Diamond.

In building a theory of international competition which is more realistic in terms of the determinants of the successes and failures of individual firms, Porter tends to lose the perspective of the whole economy. International trade is a positive sum game, not a zero sum game. Krugman (1991) has put it neatly. 'International competition does not put countries out of business. There are strong equilibrating forces that normally ensure that any country remains able to sell a range of goods in world markets, and to balance its trade on average over the long run, even if its productivity, technology, and product quality are inferior to those of other countries. And even countries that are clearly inferior in productivity to their trading partners are normally made better, not worse off, by international trade.'

Nevertheless, firms and journalists and others who are concerned over the non competitiveness of some Australian producers are responding to real concerns in the marketplace. One feature of greater integration of world markets and greater openness of national economies is that competition has become globalised. There are more competitors in world markets. It is more difficult now for a country which is well endowed with natural resources, to take an example highly relevant to Australia, to earn substantial rents in world markets. And the competitors and the products with which we are competing are changing more rapidly than ever. There is less room for suppliers who do not keep up with their competitors in terms of new methods of production or new products.

Industrial Policy

In a globalised economy, there is less room for governments to make mistakes in national economic policies. Governments as well as firms are in competition with each other.

Since the 1920s the centrepiece of Australian industrial policies has been on border protection for import-competing activities. This has changed rather dramatically in the last decade. I believe the policy of reducing traditional border protection is correct, though the introduction of the most substantial cuts during the most severe recession the economy has experienced since the Great Depression was bad timing. Maintaining border protection is not an effective way of dealing with the declining competitiveness of industries and it imposes substantial costs on consumers and exporters. (For a recent of review of protection policies and arguments, see Anderson, 1993).

There is also strong pressure on the government to assist some of the traditional export industries, such as the wool industry. A government should not try to forestall market changes by encouraging export industries whose halcyon days have gone. Governments should assist exporters by removing impediments to access to technologies, finance, information technologies and through export skills training rather than direct assistance to export activities by means of industry or export subsidies.

While there is little the Australian Government can do to improve access to overseas markets for its exporters, it will have to monitor very closely the developments in NAFTA, the ASEAN Free Trade Area and other regional trade arrangements. The growth of regional trading arrangements is a part of the process of global integration and is not cause for immediate alarm. Nevertheless, Australia may have to make difficult decisions about joining one or more of these arrangements if the Uruguay Round does not resolve current disputes between the US, Japan and the EC countries. In this environment, the Australia Government has been seeking, correctly, to avoid a choice between joining a trading bloc based on NAFTA and one based on Japan or another Asian grouping of countries.

Globalisation will also have large effects on economic policies other than trade policies. Indeed, in my view the main role for government in helping efficient internationally competitive industries lies in non-border trade policies. Governments should promote the movement of resources into new activities by removing barriers to entry into some labour and product markets, allowing flexibility in wages and working conditions and providing an environment that facilitates resource movement and allows new businesses to compete with established businesses. Here we can take a leaf out of the policy book of the Asian economies. One of the major advantages of these economies is that they have generally pursued policies which promote resource re-allocations instead of resisting them and this is particularly true, in contrast to Australia, in their labour markets which have much greater flexibility in pay and working conditions.

Another major role of the government is to achieve the appropriate macroeconomic balance. As noted above, the chronic balance of payments deficits in Australia are primarily due to an excess of national expenditures on all goods and services over national output or, equivalently, an excess of aggregate national investment over aggregate national savings. This can be corrected either by boosting savings or decreasing investment. If we are to accelerate the rate of growth of real output, it must be mainly the former, especially given the need to improve the technologies of producing many goods and services. Here I note the importance of interest rates. The reliance in Australia over the last decade on monetary policy as the chief instrument of short-term stabilisation policy has given us high real interest rates which discourage investment.

A General Theme

In economic analysis things are often not what they seem. As an example, let us return to the issue of the effects of the cuts in border protection on output and unemployment in the affected industries. In the proximate sense, the fall in outputs and employment in these industries must be due primarily to one or more of three causes: a decline in the real exchange rate (that is, the nominal exchange rate adjusted by an index of costs to producers in Australian relative to those overseas) which determine the relative **border** prices before tariffs and quotas, or the fall in tariffs, quotas and other assistance to these industries which lowers the relative **market** price of import-competing substitutes, or the recession which affects demand. Popular opinion and many politicians blame the reduction in protection which is taking place under the schedule of tariff cuts announced by the government in May 1988 and March 1991, and they attack what they see as the spurious doctrine of '**the level playing field**'. The Federal Government blames the recession. I am inclined to attribute this result mostly to the reductions in border assistance because the real exchange rate has fluctuated widely and because of the steady rise in the import shares of the markets whereas one would expect a recession generally to reduce both import and domestic sales.

Yet, this attribution does not imply that the cuts in protection should be reversed. The basic error which many make in noting the association between changes in tariffs and quotas on the one hand and changes in unemployment in the affected industries on the other is to ignore the second round effects which occur elsewhere in the economy. One needs an economy-wide perspective. Lower tariffs mean cheaper inputs used by other industries and this in turn stimulates the profits and the outputs of these industries. More importantly, the first round increase in imports leads itself to a fall in the nominal exchange rate which in its turn will stimulate export activities and make import-competing activities more competitive. Analyses in Australia and other countries show that these second round effects compensate for the adverse first round effects and there is no fall in aggregate employment (See Powell and Snape, 1993). Most of the increase in jobs occurs in the industries producing non-tradeable and service commodities. (This does not deny an increase in aggregate short term unemployment which is particularly large and painful in a period of high general unemployment.)

Here we may note a connection between the level of foreign investment and the competitiveness of export and import-competing activities. The increase in the level of foreign investment after the mid-1980s has strengthened the Australian dollar in foreign exchange markets and the real exchange rate, compared to what they would have been in the absence of this increase, even though there has been no sustained appreciation of the real exchange rate. This has increased pressure on import-competing and export industries. Overseas wisdom is that economic reforms should begin with the reforms of commodity and factor markets rather than the financial-markets-first strategy which Australia adopted from 1983.

The trick of economic analysis is to trace the ultimate cause of obvious problems and this is not easy in a world in which all variables are related to each other and many exogenous events are changing simultaneously. As Keynes observed of economics: '[It is] an easy subject, at which few excel!'

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3

THE MACROECONOMIC ENVIRONMENT: CONTROLLING INFLATION AND MAINTAINING COMPETITIVENESS

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THE MACROECONOMIC ENVIRONMENT: CONTROLLING INFLATION AND MAINTAINING COMPETITIVENESS

DOUG McTAGGART

International Competitiveness: What is it?

International competitiveness is a nebulous concept relating to one country's ability to compete on international markets with products from other countries. While it is usual to focus on relative costs – relative labour costs in particular – and on exchange rates, international competitiveness is a much more comprehensive concept.

Michael Porter, author of *The Competitive Advantage of Nations* defines competitiveness:

> 'A nation's competitiveness depends on the capacity of its industry to innovate and upgrade. . . Innovation can be manifested in a new product design, a new production process, a new marketing approach or a new way of conducting training.' pp. 73–74.

Another publication entitled *The World Competitiveness Report*, published annually by IMEDE, a business school in Switzerland, and the World Economic Forum, provides a similar definition:

> '[Competitiveness is] the ability of entrepreneurs to design, produce and market goods and services, the price and non-price characteristics of which form a more attractive package than that of competitors.' IMEDE and World Economic Forum, 1989.

The report summarises a country's ability to compete internationally, looking at a broad range of economic and business characteristics including industrial efficiency, natural and human resource endowments, international orientation, aggressiveness of enterprises and socio-political stability. Figure 3.1 on page 35 (from the *Economist*, June 26–July 2, 1993) reproduces the latest *Report*'s ranking of competitiveness in OECD economies. Japan continues to dominate the field, with Australia coming fourteenth in the competitiveness stakes in 1993. This ranking is up from sixteenth in 1991, but down from tenth in 1988.

New Zealand provides an interesting example of the influences on such rankings. The impact of widespread domestic reforms can be seen in this case, with New Zealand jumping from fifteenth in 1992 to eighth place in 1993.

It is widely perceived that Australia has a problem with persistent current account deficits and the consequent build-up of external debt. Figure 3.2 (page 35) shows the persistent decline in the current account balance as a proportion of GDP since 1970. Australia's external position has declined relative to world standards to the extent that in 1953, Australia accounted for 2.6 per cent of world export trade and ranked eighth among world trading nations. But by 1986, Australia accounted for just 1.1 per cent and had fallen to twentieth position.

Increasing import penetration into domestic markets, as shown by the imports to sales ratio in **Figure 3.3** (page 36), is often cited as further evidence of the decline in Australia's international competitiveness.

To address the external debt problem, either imports as a share of GDP (or sales) must be curtailed and/or exports as a share of total production must be increased. These outcomes apparently can be achieved either by direct government intervention or by voluntary responses by domestic manufacturers to market forces.

Direct government intervention can mean either restrictions on imports or aid to exports. The former is a discredited policy having been pursued for many years with perverse outcomes. Rather than using the protection from imports to increase domestic market share and build this base from which to launch an export drive, domestic manufacturers used the protective barriers as a shield from international competition and shunned the idea of becoming internationally competitive.

Providing direct subsidies to exports is also a potentially dangerous policy. Having initiated new exports with some form of subsidy support, such new exporters must quickly become internationally competitive in their own right (where presumably they are not now) so that the government can subsequently wean them off the taxpayer funded support. Ultimately, export subsidies must be seen as a short-cut route to achieving international competitiveness. Of course, the danger is that the weaning period never arrives and progress in increasing exports only lasts as long as the subsidies. And this does not answer the question of why the private sector cannot see the potential long-term benefits from certain export adventures where the government can.

The bottom line is that the domestic firms must become internationally competitive in their own right, and the surest way for this to occur is for the government to provide the appropriate economic environment in which the right market signals are created, to which domestic producers respond. Much of the responsibility for improving international competitiveness lies within the control of individual firms. The Economic Planning Advisory Council (EPAC 1991a) identified the following:

- enterprises must devise ways to measure their productivity and competitiveness, particularly by comparison with best practice abroad;
- management and employees must make a commitment to change the ways things are done;

- performance must be improved in the areas of labour turnover, absenteeism, industrial relations, union structures, bargaining units, skill levels, language problems, workplace safety, work flows and materials management, quality control, international marketing and export orientation, and management practices and attitudes.

EPAC went on to identify some of those factors affecting international competitiveness outside the control of individual firms (EPAC 1991b):

- the exchange rate;
- inflation;
- the cost of capital, interest rates;
- industry policy;
- wage costs and the industrial relations system;
- business taxation;
- other regulatory arrangements;
- the provision and efficiency of infrastructure; and
- the world trading environment.

Many of these factors fall within the gamut of 'microeconomic reform' and will be dealt with later in the conference. The first two factors, the exchange rate and inflation, are significantly affected by the government's chosen monetary policy and are the subject of the rest of this paper.

Measuring International Competitiveness

In its most general formulation, as in the World Economic Forum Report, international competitiveness is a multi-faceted entity, and it is difficult to quantify in a single index. The relative importance of each particular facet or factor affecting competitiveness will vary with each product or service under consideration. For this reason, simple comparative cost or price measures are often used.

Two of these are:

- relative unit labour costs; and
- a CPI-based measure of the real exchange rate.

Figure 3.4 (page 36) shows these measures for the period 1970Q1 to 1993Q1. Both these measures are otherwise known as **real effective exchange rates** (REER). The labour cost measure is defined as:

$$\text{REER(ULC)} = \text{Nominal Exchange Rate} * \frac{\text{Unit Labour Cost (Australia)}}{\text{Unit Labour Cost (Trading Partners)}}.$$

And the CPI-based measure is defined as:

$$\text{REER(CPI)} = \text{Nominal Exchange Rate} * \frac{\text{CPI (Australia)}}{\text{CPI (Trading Partners)}}.$$

An increase (appreciation) in the REER indicates declining international competitiveness. A decrease (depreciation) indicates an increase in international competitiveness. With both measures, a depreciation (fall) in the nominal exchange rate increases international competitiveness, while an appreciation (rise) in the nominal exchange rate decreases international competitiveness.

In the case of the REER(ULC), a decrease in competitiveness occurs if unit labour costs in Australia rise relative to unit labour costs in our trading partners. Unit labour costs are determined by, amongst other things, both the compensation per employee and relative labour productivity. EPAC (1991b) identified the contributions to changes in the REER(ULC) as follows:

Table 3.1 **Unit labour cost based measure of competitiveness**
average percentage change per year, 1973–1990.

	1973–79	1979–88	1985–90
Real effective exchange rate	−1.4	−1.4	4.7
Comprising influences from:			
nominal exchange rate	−5.6	−5.7	0.9
relative compensation per employee	4.2	3.5	2.6
relative labour productivity	0.4	−0.9	
Other factors	0.4	−0.1	−1.2

Over the entire period 1973–1990, the depreciation in the nominal exchange rate more than offset the negative effects of increasing relative compensation per employee and lagging productivity growth in Australia.

These measures are known as **real** exchange rates because they show opportunity costs.

Using the following notation:

$$\text{Nominal exchange rate} = E = \frac{\$US}{\$AUS};$$

$$\text{CPI(Australia)} = P = \frac{\$AUS}{\text{domestic goods}};$$

$$\text{CPI(Trading Partners)} = P^{*} = \frac{\$US}{\text{foreign goods}}.$$

then,

$$REER(CPI) = E * \frac{P}{P_f}$$

$$= \frac{\$US}{\$AUS} * \frac{\frac{\$AUS}{\text{domestic goods}}}{\frac{\$US}{\text{foreign goods}}} = \frac{\text{foreign goods}}{\text{domestic goods}}.$$

That is, the REER(CPI) measures how many foreign goods must be sacrificed to get a domestic good. In other words, the REER(CPI) is the **opportunity cost** of consuming Australian produced goods in terms of foregone foreign produced goods.

Similarly, the REER(ULC) measures the opportunity cost of domestic goods and foreign goods in terms of hours of work required to produce each good.

We can reasonably suppose that, as a small country, Australian economic policy has no influence over foreign prices or labour costs. Thus the role for the government, regarding its ability to influence Australia's international competitiveness by conscious policy choice, lies in its ability to influence either the nominal exchange rate and/or the price level or wage costs. Clearly any measures which affect total factor productivity – the whole purpose of microeconomic reform – will influence competitiveness. The idea being that by increasing factor productivity and otherwise reducing business costs, Australian products can be supplied to domestic and foreign markets, increasing their share in each. However, our focus here is on the influence of monetary policy choices on the price level (through inflation) and the exchange rate.

The Impact of Inflation

Differential inflation rates between two countries, given a fixed nominal exchange rate, change the relative competitiveness of those countries. If, for example, Australia has a higher inflation rate than its trading partners, then its CPI would rise faster, causing an appreciation of the REER and a loss in competitiveness.

Simply put, as domestic prices rise faster than foreign prices, given the nominal exchange rate, both domestic residents and foreign residents observe an increase in the opportunity cost of Australian goods in terms of foreign goods. As a consequence, domestic residents substitute out of domestic goods into foreign goods – imports rise – while foreign residents switch out of domestic (Australian) goods back into foreign goods – exports fall. The current account deteriorates as Australia's international competitiveness deteriorates.

Figure 3.5 (page 37) shows the relative inflation performance of Australia and the rest of the world. The solid line is the inflation rate (four quarter change in the CPI) in Australia. The broken line shows the four quarter change in the CPI in the rest of the world (a world consumption deflator index from the Treasury's NIF Database). Throughout most of the 1970s and 1980s, Australia's inflation rate consistently exceeded inflation in the rest of the world – eroding our international competitive position.

Figure 3.6 (page 37) shows what this differential inflation has done to the relative price levels over the same period. Starting with equal price levels in March 1970, by March 1993, Australia's price level was almost twice that in the rest of the world. Comparing **Figures 3.5 and 3.6** with **Figure 3.4**, notice that Australia's international competitiveness was either very low or declining in those periods when the inflation differential was the largest – March 1974–March 1977, mid 1981–mid 1984, and mid 1986 to mid 1990.

Notice also that in the period when Australia's inflation performance was better than the rest of the world's, March 1991 on, the REER was depreciating, improving Australia's competitive position.

Chronic inflation has other, more subtle effects on international competitiveness, other than simply making domestic goods more expensive. Its interaction with various nominal rigidities in the Australian economy has led to a number of undesirable outcomes. Firstly, inflation, even fully anticipated inflation, imposes costs when it interferes with the normal operation of markets. Reprinting catalogues, advertisements and menus, has led to what is termed '**menu costs**'. Simply by adding noise to market operations, inflation may induce people to spend more time in search than what they would otherwise do. That is, inflation induces either defensive responses or actions designed to benefit from inflation that otherwise would not have occurred. The allocation of resources is different with inflation than it is, with zero inflation.

These resource re-allocations are particularly important for industry. In the labour market, high and variable inflation generally leads to greater industrial unrest because it forces contract negotiations more often than would occur if prices were stable. Inflation also distorts the disposition of the nation's capital stock because it distorts the investment mix. More investment flows into real estate, and other activities which engender rapid asset price changes, so that investors can generate a rapid return on their funds, rather than have their value eroded by price rises. These factor market distortions ultimately have a significant effect on total factor productivity and may explain why Australia has performed relatively poorly compared to many of its trading partners.

To offset the negative impact of two decades of consistently poor performance regarding inflation, the nominal exchange rate must have depreciated significantly . We now turn to this aspect.

The Exchange Rate

Most governments and central banks believe they have some, or even considerable, power over exchange rates. Moreover, they usually believe that markets quite often get the exchange rate wrong. Consequently, they intervene often, and often enough for some people to believe that the government could set the exchange rate to whatever level they choose. This invariably leads to calls for the exchange rate to be devalued so as to improve the country's international competitive position.

Such calls, however, credit the government with more power than it really has to influence the exchange rate. In the long run, the exchange rate is determined by fundamentals in the foreign exchange market – principally the terms of trade, reflecting foreign demand for Australian products, and also the differential inflation rate between Australia and its trading partners.

The trade-weighted index (TWI) measure of the exchange rate is shown in **Figure 3.7** (page 38). The TWI is an **effective** exchange rate in that it measures the strength of the Australian dollar against a basket of currencies. **Figure 3.7** shows that since mid-1974, the Australian dollar has invariably depreciated against foreign currencies. (Just for fun, abandon any memories of the past and, simply by looking at the graph, pick when the exchange rate was floated).

It is this sustained depreciation of the dollar that has acted to offset the negative impact on competitiveness of the higher average Australian rate of inflation. The mechanism follows from our discussion above. As domestic prices rise relative to foreign prices (or domestic wage rates rise relative to foreign wage rates), other things constant, the REER appreciates and the domestic economy becomes less competitive. But as imports rise and exports fall, the current account deteriorates and this puts downward pressure on the exchange rate – the supply of foreign exchange dries up, while demand for foreign exchange increases. The nominal exchange rate depreciates. This restores competitiveness. If the nominal exchange rate fully reflects the change in prices, say by a purchasing power parity relationship, then the REER does not change as the fall in E offsets the rise in P.

But other things also change. In particular, the Australian economy, being a small trading economy, suffers from various external shocks. These are manifested through changes in the terms of trade (TOT), defined as:

$$TOT = \frac{\text{Price of exports}}{\text{Price of imports}} * 100.$$

Australia is unusual for a western developed economy in that it imports a typical western bundle of a broad range of manufactured goods but exports a small bundle of goods specialised in mineral and agricultural commodities. Moreover, the export bundle is energy intensive. When the western world goes into recession, usually because the United States, the world's largest consumer of energy, enters recession, both the world demand for Australian exports falls, and the price received for those goods declines. The terms of trade fall.

The natural equilibrating response for a dependent economy such as Australia is to allow the nominal exchange rate to depreciate, inducing a REER depreciation and a boost to international competitiveness. This adjustment naturally occurs because as the value of exports declines the supply of foreign exchange declines, generating excess demand for foreign currency and a depreciation.

The impact on the TWI of both the higher average rate of inflation in Australia and the variable TOT can be seen in **Figure 3.8** (page 38). The combined effects of these influences provide us with a prediction for the TWI. In **Figure 3.9** (page 38) this prediction is compared to the actual outcome. Clearly, these two influences explain most of the fluctuations in the TWI. The TWI has acted as an instrument mediating between differential cross-country inflation rates and has also acted as a buffer against external shocks.

Monetary and Exchange Rate Policy

It might seem obvious from the above discussion that the best policy for a small open, trading economy like Australia would be to keep inflation low and to let the exchange rate fluctuate to continue its buffering role. But in fact, monetary policy, and by implication exchange rate policy, has rarely been conducted in this manner. Up until December 1983, the nominal exchange rate was (apparently) fixed, which meant that the Reserve Bank of Australia (RBA) ceded control of domestic monetary policy. Even since the 'float' the RBA has intervened in the foreign exchange market to fix the exchange rate.

Figures 3.10 (page 39) **and 3.11** (page 40) indicate the extent of intervention by the RBA in the markets. The graphs show the change in the TWI plotted against the change in foreign reserves (net of valuation effects). Recall that if the nominal exchange rate is depreciating and the RBA wants to stop that slide it buys Australian dollars and sells foreign reserves. That is, it runs down its stock of reserves.

Up to the float in December, 1983, the relationship between the change in the exchange rate and reserves is not clear. But this changes from 1984 on. There is a consistent relationship indicating that when the Australian dollar was depreciating the RBA was supporting the currency, and when the dollar was appreciating, the RBA was selling the currency. That is, the Reserve Bank was consistently acting to offset any changes that might have occurred to the exchange rate.

Such behaviour is consistent with the view that most of the disturbances to the Australian economy are domestic shocks to aggregate demand. That is, whenever the current account is deteriorating it is because of runaway domestic demand that must be reigned in. Hence the tightening of monetary policy, raising of interest rates and general upward pressure on the exchange rate as Australia enters recessions. The fact that recession actually occurs is put down to the excessive use of monetary policy — a question of getting the settings right.

But if the dominant source of disturbance to the Australian economy is foreign and real, then the above is exactly the wrong policy. The exchange rate should be allowed to depreciate to maintain international competitiveness and so lessen the impact of the foreign decline in demand.

Which view is right? I believe that the evidence overwhelmingly favours the view that most of the fluctuations in the Australian economy are caused by fluctuations in world output – primarily from the United States. It seems that this view is gaining some currency as Australia emerges slowly from this recession. But it also means that monetary policy has, in the past consistently been conducted so as maximise fluctuations in Australia's international competitiveness, rather than to mitigate them. It also means that the build-up of external debt in Australia, is much faster than it otherwise would have been.

Conclusions

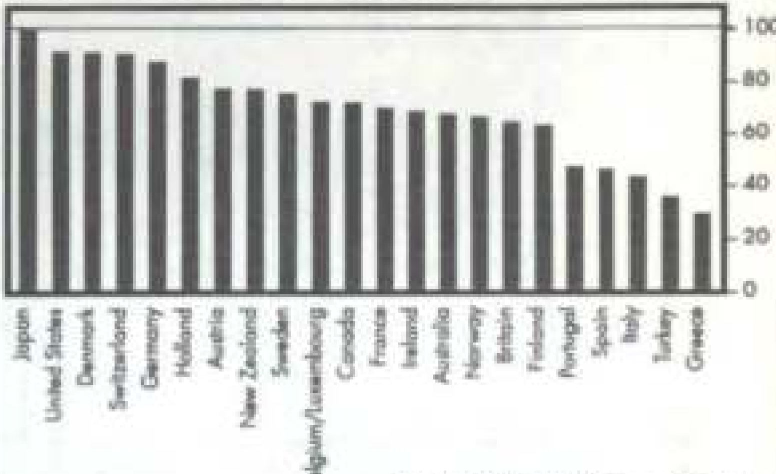
Macroeconomic policy, monetary policy in particular, has two roles to play in so far as Australia's competitive position is concerned:

- First, achieving and maintaining low inflation, or at least inflation no worse than our trading partners, is important.
- Second, allowing the exchange rate to play its natural role as a buffer against foreign disturbances is equally important.

Adhering to a freely floating exchange rate regime allows both policy objectives to be met because the central bank can independently control the domestic money supply when the exchange rate floats.

This raises two questions. One, how should producers of tradeable goods deal with exchange rate volatility? Two, how should the government deal with a regulated labour market which institutionalises inflation generated by depreciations? However, both these issues are the concern of microeconomic reform and not macro policy.

Figure 3.1: **International competitiveness 1993** Japan = 100



Sources: IMD; World Economic Forum

Figure 3.2: **The current account** as a proportion of GDP

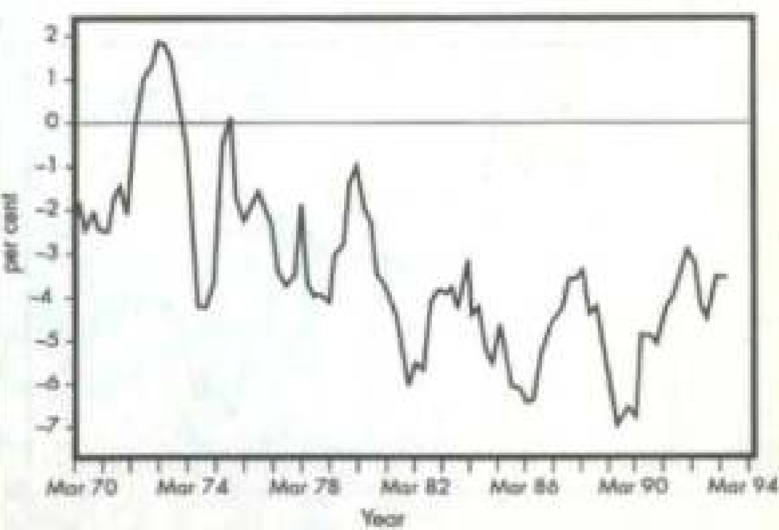


Figure 3.3: **Import penetration** Import to sales ratio

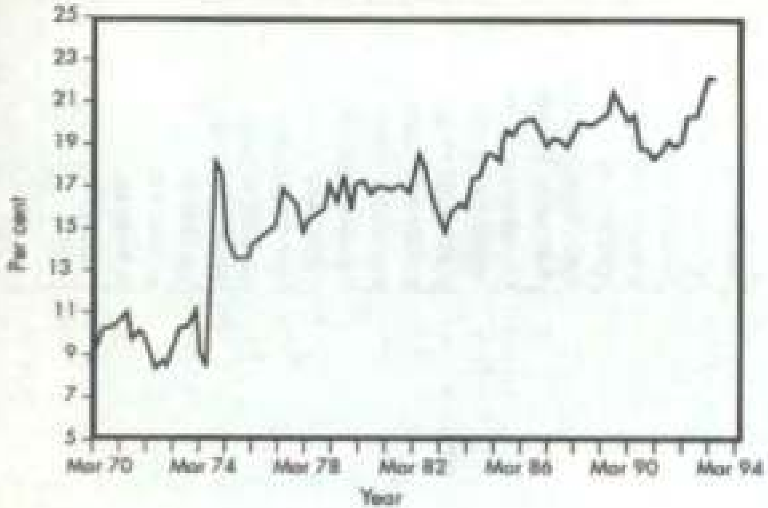


Figure 3.4: **International competitiveness**
Real effective exchange rates

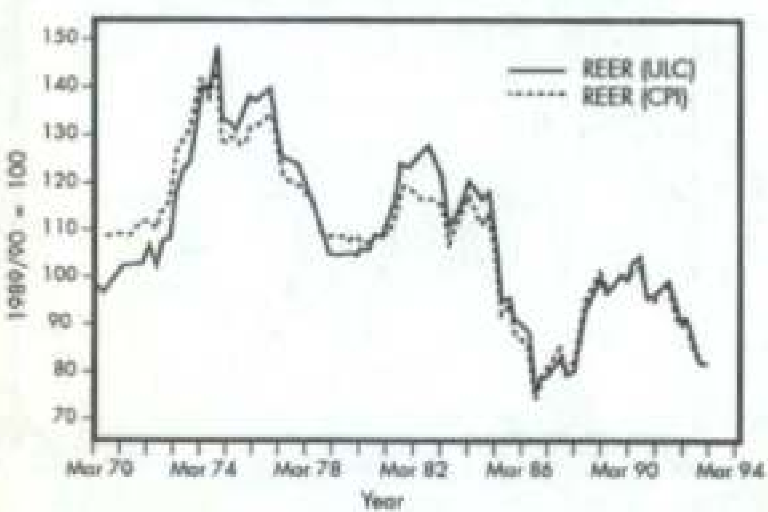


Figure 3.5: **Relative inflation rates**

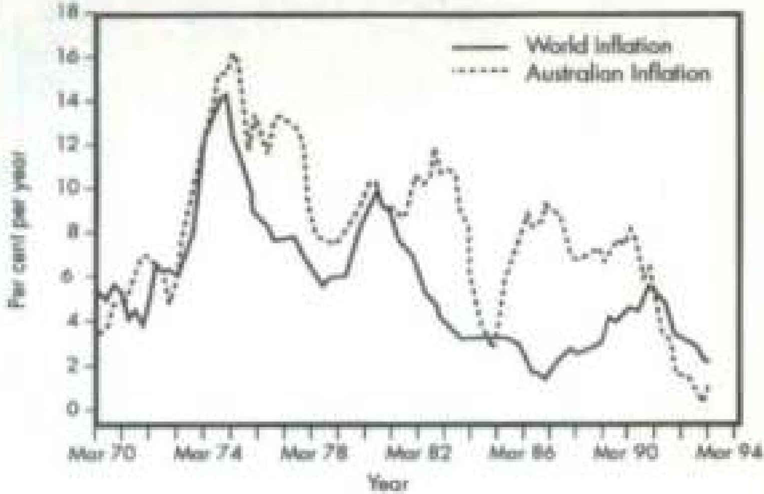


Figure 3.6: **Relative price levels**
Australian CPI/World CPI

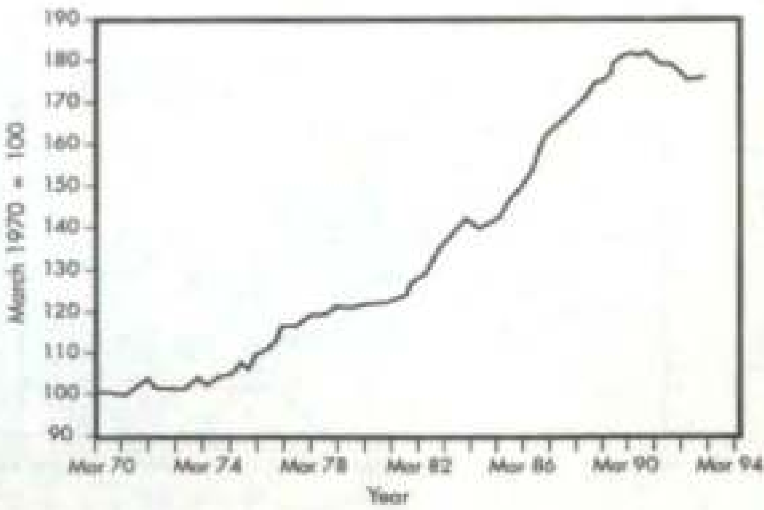


Figure 3.7: **The nominal exchange rate**
Trade weighted index

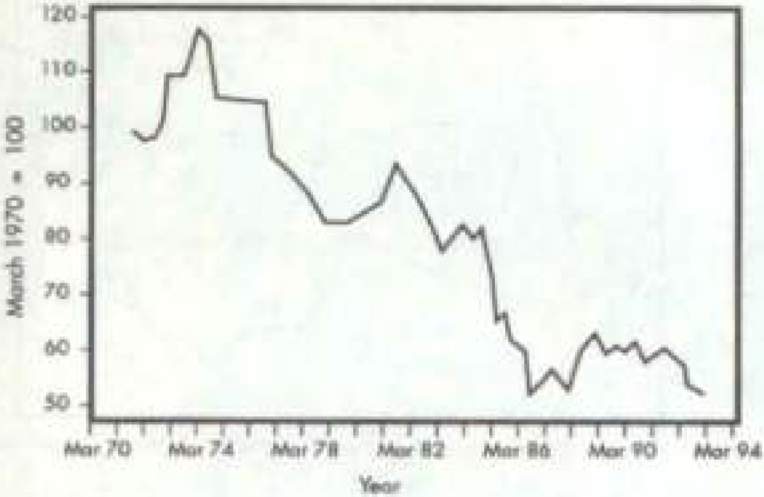


Figure 3.8: **Contributions to the TWI**
Trade weighted index

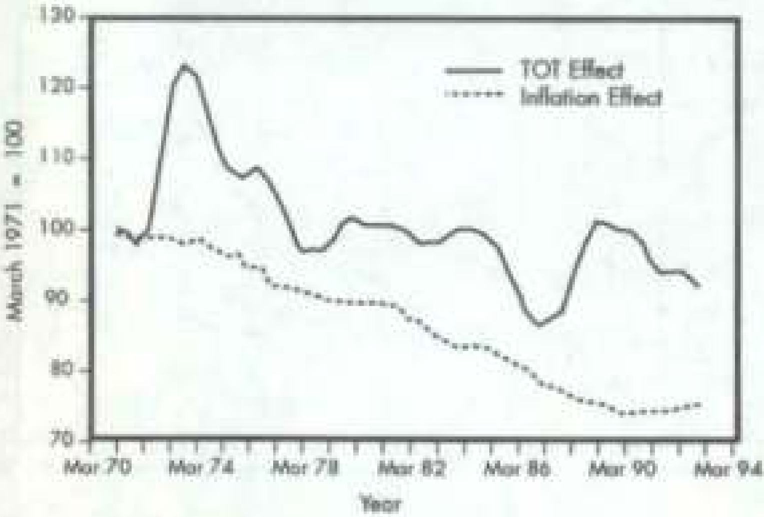


Figure 3.9: **TWI, the TOT and inflation**

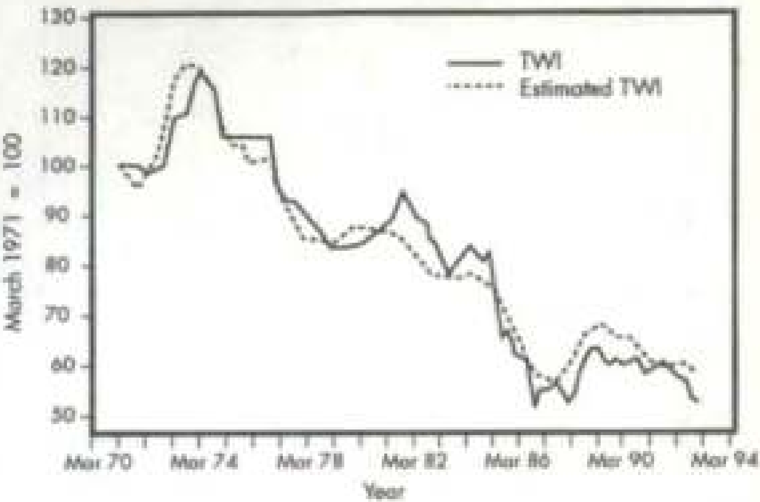


Figure 3.10: **Foreign exchange interventions**

Changes in the TWI and changes in reserves 1973–1984

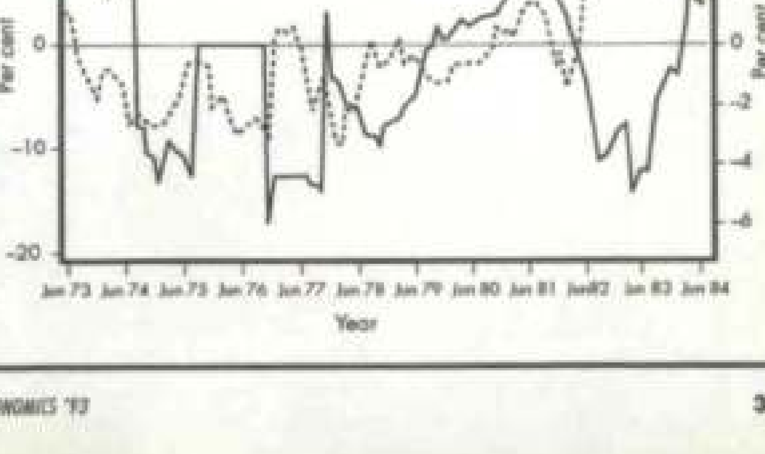
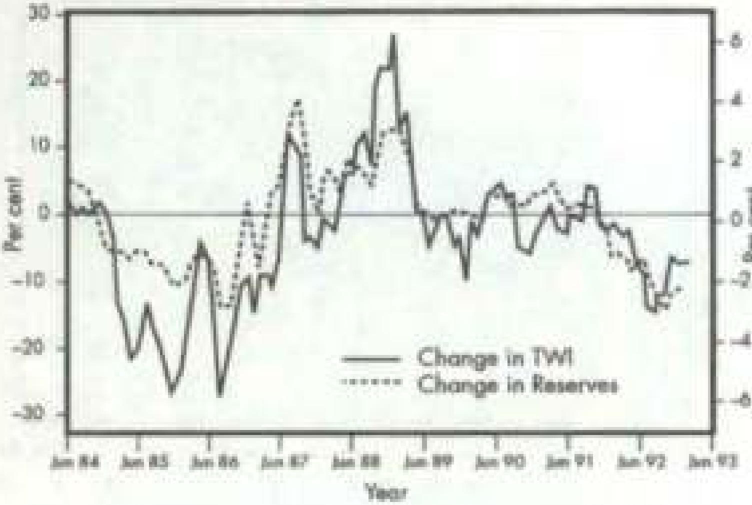


Figure 3.11: **Foreign exchange interventions**
Changes in the TWI and changes in reserves 1984–93



4

IMPROVING THE COMPETITIVENESS OF AUSTRALIAN INDUSTRY THROUGH MICROECONOMIC REFORM

GARY BANKS

COMMISSIONER
INDUSTRY COMMISSION

Gary Banks is a Commissioner with the Industry Commission, which he joined in March 1990. He is currently presiding on an enquiry into impediments to regional industry adjustment and will shortly head an enquiry into research and development policies. Gary was born in Melbourne and holds degrees in economics from Monash University and The Australian National University. Before joining the Commission, he spent two years with the Centre for International Economics, Canberra. Gary Banks was previously on the staff of the GATT Secretariat, Geneva and has been a consultant to international agencies and business organisations. In 1987, he was visiting fellow at the Trade Policy Research Centre in London. He has also held senior government positions with the Office of National Assessments and the Industries Assistance Commission.

IMPROVING THE COMPETITIVENESS OF AUSTRALIAN INDUSTRY THROUGH MICROECONOMIC REFORM

GARY BANKS

The title of this conference – 'Creating Competitive Advantage in the '90s' – is a reflection of an important change of attitude in this country. In recent years, Australians and their governments have come to realise that it is not enough to be 'the lucky country' (in Donald Horne's immortal phrase). To be successful over the long haul, a country must make its own luck.

While Michael Porter's notion of 'competitive advantage' has not rendered the economist's traditional concept of 'comparative advantage' redundant, what it has usefully done is put emphasis on the need to make the most of and even add to a country's resource base. It is about meeting the challenge of international competition in a positive way, the antithesis of the defensive inward-looking strategies adopted by Australia in the past. The theme of this paper is that improving the competitiveness of Australian industry requires first and foremost the reform of government policies and practices which are the legacy of this earlier approach.

Importance of Trade

The particular focus today is on 'creating a competitive economic environment for Australian exports.' Why the emphasis on exports? The answer is that countries with more rapid export growth generally also have higher rates of growth in per capita income and living standards for their citizens. This has been confirmed by a variety of studies in developing and developed countries.

For example, Michaely (1977) computed rates of growth in the ratio of exports to GDP for forty-one developing countries over 1950–1973 and compared them with per capita income growth across these same countries. He found that the growth performance of the higher income countries was highly correlated with export performance. The World Bank has also conducted a variety of studies into the growth performance of developing countries – including detailed examinations of individual countries – and similarly concluded that trade participation has been a critical determinant of growth. In industrial countries, relative growth performance also reflects relative rates of increase in the export share of GDP (see Figure 4.1 page 58).

While other factors have obviously played a role, it would appear that exports have been part of an 'engine of growth' for many countries in the post-war period. A key explanation for that can be found in Adam Smith's maxim that 'the division of labour is limited by the extent of the market'.

Exporting extends national markets. In doing so, it permits increased specialisation, economies of scale, higher productivity of labour and capital and, ultimately, higher real incomes.

But Adam Smith is even better known for his forceful case against the 'mercantilists', who advocated policies which treated exporting as an end in itself. As Smith explained, the true gains from exports are the command over resources that they provide through imports. Exports expand the consumption possibilities of a nation and (Smith again) 'consumption is the sole end and purpose of all production'. Thus we should properly speak of the gains from 'trade'.

Australia's Export Performance

In an influential study of the Australian economy by the Brookings Institution nearly ten years ago, Lawrence Krause had this to say about Australia's export performance:

> 'It is often said that Australia has always been a trading nation and that is no doubt true. However, if one measures commitment to international trade by the ratio of exports and imports to domestic production, then Australia has become less of a trading nation during the postwar period; this is quite the reverse of other industrial countries.' Krause (1984, p.275-6).

Indeed from a number of perspectives it is apparent that Australia's trade performance has slipped in the post war period. For example, Australia's share of world exports has declined from 3 per cent in 1950 to just over 1 per cent today. Between 1956 and 1990 its ranking as a world exporter fell from 11th to 20th. Overall, the rate of growth of Australia's exports has been lower during the past thirty years in value and volume than the averages for both industrial and developing countries.

But these averages hide a more encouraging story in recent years. For example, when exports of services as well as goods are accounted for, the ratio of exports to GDP in Australia has increased significantly since the mid-1980s (**see Figure 4.2**, page 56). I believe that this is in part a response to some important policy initiatives in that period – which brings me back to the main theme of my talk.

Competitiveness and Microeconomic Reform

The competitiveness of Australian exports – their ability to gain world market share – depends on the cost and productivity of what goes into making them. This encompasses management, labour, technology and material inputs, and how well they interact and combine. That in turn is influenced importantly by governments – federal, state and local. Not just through deliberate policy measures (or policy omissions) but also through government's role in producing goods and services that are used by others.

As Kasper (1993) has suggested, it is instructive to think of Government as another factor of production, its performance influencing the performance of the rest. It is also an important determinant of where global footloose capital decides to come to rest.

Changes to the way government does things which lead to improved industry competitiveness and benefits to consumers have come to be known under the collective rubric of 'microeconomic reform'. The objective is to improve the productivity of Australia's resources, providing the basis for higher living standards. The Industry Commission has estimated that reforms in trade barriers and in key areas of government regulation and business (including public utilities like energy and water) would ultimately generate a permanent gain in GDP of some $22 billion dollars (1988–89), involving a consumption gain equivalent to $2,300 per household. Associated with this would be a substantial rise in exports.

The Keys to Microeconomic Reform

The work of the Industry Commission and its predecessor organisations has yielded two key insights that are central to an effective reform program. One is that there are no 'free lunches' in industry policy; the other is the importance of competition.

No Free Lunches

In the post war years, government in Australia came to be thought of as a kind of 'magic pudding', able to dispense slabs of assistance to various industry groups without noticeable effect on what was left for others. Government itself encouraged that view. But the reality is quite different. There ain't no free lunch, as the Americans say, and the Commission's work has largely been devoted to explaining and demonstrating why that is so.

Government support for particular industries can involve costs in two senses:

- **First** there is a distributional or taxing effect: some firms or industries are made better off, but others may thereby be made worse off. This is a consequence of the most basic economic concept of all: scarcity. There are limited resources and skills available to a nation at any one time. Assistance to certain enterprises allows these to bid resources away from other enterprises, possibly forcing some out of business or suppressing the emergence of others.

- **Second**, the process of diverting resources from one firm or industry to another ('taxing Peter to pay Paul') is not just a harmless transfer of wealth, for it involves economic wastage:

    - some resources get used up in administration and, more importantly, scarce managerial time gets side-tracked into lobbying for (and defending against) policy changes; and

- where assistance is given to less productive industries (which it typically does, as they tend to have the most incentive to lobby for it) its diversion from more productive alternatives means that the overall productiveness of the economy itself declines.

These aspects suggest a further extension of our culinary analogies: no country can have its cake and eat it too. What it can do is fight over who gets larger slices, but it is not clear that even the successful recipients are necessarily better off than they would have been if the cake had been able to grow. The rest of society is unambiguously worse off.

Competition Counts for Competitiveness

When they have not been attending the football or cricket, Australians have traditionally tended to think of competition as a dirty word. The main thrust of policy has been to inhibit it. There is growing recognition now that this was wrong and that persistence could have proven fatal to our economic future. As the Commission has observed in a recent annual report:

> 'Exposure to competition is the most certain means of ensuring that production and distribution are efficient and that the benefits of improved efficiency are passed on to consumers' (IAC 1989a, p2).

'Competition' does not mean the perfect competition of textbooks – involving many sellers of identical products, with complete information at their disposal. Rather, what is required is a '**contestable**' **market** environment in which excessive profits (or normal profits despite excessive costs) can attract newcomers. In other words, **effective competition** is not determined just by how many sellers there are, but by the threat of potential entrants to keep the established ones 'honest'.

Competition provides some important incentives for improved economic performance:

- **First**, it serves to keep prices as low as production costs (and any government intervention) permit. While a firm may be able to get away with 'excessive' prices and profits in the short term, this can only be a transitory phenomenon in a competitive market. (It can also be a desirable one: firms are often encouraged to do new, productive things by the attraction of exceptional profits. Another point: what looks like excessive profits *ex post* may not have been *ex ante*, given the risks involved).

- **Second**, it follows that competition in product markets (that is, markets for final goods and services) also provides an incentive for greater competition in factor (input) markets. Producers have a heightened incentive to maximise the productivity of their workers and managers.

And, without the possibility of excessive prices on output, workers have less incentive to hold out for excessive prices for their own labour.

- **Third**, over time, competition provides an incentive for managers to keep searching for lower costs or better ways of doing things, and also for new things to do. Since the essence of the growth process is adjustment and adaptation to new opportunities and constraints, this dynamic role of competition is an extremely important ingredient in economic performance.

The Agenda

Australia's economy accumulated policies over many years which were the antithesis of those that promote competition and encourage specialisation in what we do best. The microeconomic reform agenda is really about modifying and unwinding those policies.

The scope is wide. It encompasses the markets for goods, services, labour and capital, as well as the economic, social and legal infrastructure that supports them. Two key areas of government involvement in which the Industry Commission has played a significant evaluative role, through its public inquiry process, are import protection and Government Business Enterprises.

Protection Reform

Australia's history of industry protection provides a good example of the adverse impact of free lunch logic combined with resistance to competition. The protection experiment began in the earliest years of Federation. It formed part of a compact between government and business as a *quid pro quo* for institutionalised high labour costs. And it reflected a government view (not without community support) that Australia should have a sizeable manufacturing sector.

The 'benefits' from this approach soon became apparent: Australia developed a highly diversified manufacturing base, and in that sense the original objectives were met. But the costs were not well understood (or even documented) until the Tariff Board began some evaluative work in the late 1960s.

What the Tariff Board and then the Commission provided was analytical refutation of the protectionist position and some numbers to show what these policies were costing Australia. Perhaps the most important lesson this work taught was that protection is not primarily about 'them and us'; rather it is about us and us, with some of us gaining at the expense of others in the short run and most of us losing in the long run.

In its many inquiry reports, annual reports and occasional papers, the IAC spelt out the now familiar difficulties with this sort of government intervention:

- protection holds valuable resources in less productive uses, reducing the productiveness of the economy as a whole;
- it imposes net costs on more lightly assisted industries through higher prices and factor costs;
- its incidence falls heavily on export industries, who can't 'pass it on' in competitive world markets – thus suppressing trade and the growth opportunities it provides; and
- by reducing competitive pressure, it dulls the incentive to strive for efficiency within enterprises.

Most of these messages were not new. They had been accepted as sensible reasons for avoiding protectionism since the eighteenth century. But the political forces that nevertheless resulted in their introduction and consolidation, also made it very difficult for governments to reform them. The transition from the very high protection levels of the 1960s to the projected declines flowing from the May 1988 and March 1991 decisions has accordingly been a very gradual one (see **Figure 4.3**, page 57).

The elimination of industry protection assistance from 1988 levels has been estimated by the Industry Commission to produce a permanent gain in GDP for Australia of some $4 billion. (That is a fraction of the $10 billion reduction in protection's tax effect on consumers that will be occurring at the same time).

Some of the gain will result from export growth, unshackled from the high costs induced by import protection. The Industry Commission estimated that export volume would increase by 8.6 per cent. As can be seen in **Table 4.1** (page 58), this is a bigger boost to exports than could be achieved by any of the other policy changes. Moreover, much of this gain will occur within the manufacturing sector itself.

Import protection for manufactures, while taxing the export sector in general, also has an effect on the composition of exports. For one thing, not all exports use manufactured inputs to the same extent – manufacturers themselves typically use more than do primary producers. In addition, as Sjaasted and Clements (1984) have observed:

> 'As protection discriminates against exports, those export activities that do survive are those that employ a specific factor onto which the burden can be shifted. That factor is usually a natural resource – either mineral deposit or agricultural land – whose immobility prevents it from escaping the burden of protection. The end result is that protection deepens and prolongs a country's dependence on natural resource-based exports (such as commodities), exports whose 'natural' rates of growth tend to be relatively low owing to both global demand and considerations of domestic supply'. (p46)

Manufacturing protection taxes heavily those activities which use inputs in similar proportions to the protected industries. These are generally other manufacturing activities. Thus Australia's import-substitution policies throughout the post-war period have served to reinforce our reliance on 'traditional' exports of primary products and unnecessarily exposed us to falling terms of trade associated with that dependence.

Some recent modelling work done for the Australian Manufacturing Council (Yetton, Davis and Swan, 1992) has indicated a large pay off to manufactured exports from reducing protection in Australia. Some of this may already be evident in the relatively sharp rise in the growth of more sophisticated manufactures in recent years. Indeed, recent evidence on the performance of the manufacturing sector gives no support to those who have been predicting its decimation. The Department of Industry, Technology and Commerce has described how manufacturing as a whole responded to the new policy environment of the 1980s:

> 'The decline in manufacturers' share of the domestic economy was halted at 17.3 per cent, and performance turned around on a strong growth path. Production grew at about 4 per cent a year in real terms, and research and development at 16 per cent. The export propensity of manufacturing climbed from 12 per cent to nearly 22 per cent, and investment grew at 12 per cent a year.' (DITAC, 1991, p3)

New Protectionism?

As tariffs and import quotas have diminished in restrictiveness and respectability, increased attention has started to go into alternative mechanisms. '**Anti-dumping**' is again becoming a corporate catchcry (IC, 1991a) and various forms of subsidy to possible export 'winners' within manufacturing (especially high technology) are being experimented with and more are being demanded.

The second approach is in some quarters justified on the basis of allegedly 'new' developments in economics, known as '**strategic trade theory**'. The Commission has looked closely at this new theory and concluded that 'if strategic industries exist, they are hard to identify and the theories give little practical guidance to policy makers on which industries to assist or how they should be assisted' (1989a, p 5). The fact is that the record of governments around the world with '**picking winners**' has not been much to boast about. And that includes allegedly top punters like Japan. The information difficulties confronting government attempts to 'manage' the microeconomy better than participants in the market, in terms of the pay off to general economic prosperity, remain very great.

Pressures for Other Reforms

The reason why lowering import protection is fundamental to better economic performance is its 'umbrella' role in sheltering inefficiencies throughout the economy. For a small economy, import barriers are not only costly in a static sense, they impede an important source of competitive pressure for improved performance over time. Moreover they reduce the incentive for workers and managers to come to terms which best promote productivity and competitiveness. As noted earlier, Australia's rigid labour market grew up alongside the tariff.

As protection has declined – or perhaps more importantly, the expectation of gaining protection has receded – there has been growing pressure to reform our labour market and also to reduce other inefficiencies that business can no longer 'afford'. The public sector has become a natural focus for such attention. As a former colleague once put it: 'Until man colonises the moon, the public sector remains the last source of unexploited resources available to us.'

Government Enterprise Reform

In Australia, as in most OECD countries, the public sector's share of the national economic cake has expanded considerably throughout the post war period. In 1990, government accounted for around one-quarter of GDP and gross investment, of which nearly one-third to a half came from 'government business enterprises' (GBEs) – that is, businesses owned and managed by governments, selling goods and services to industry and to the community generally.

Government enterprise activity is largely concentrated in four areas: electricity, banking, transport and communication, in that order. Other government activities include water supply, gas, sewerage and drainage, and port facilities. In contrast to industry protection arrangements, the federal government is not the dominant player in these important infrastructure areas, the bulk of activity being under state control.

In recent years the Commission has been asked by Government to report on inefficiencies in a number of areas of publicly provided 'infrastructure' and to advise governments about what might be done to improve matters.

The productive performance of a range of GBEs was found to be deficient whether judged by input utilisation, management/work practices or output standards. **Over-capitalisation** is a common occurrence in the electricity sector, communications, ports and water supply. (In electricity, capacity has ranged up to 65 per cent above demand, for example, compared with the 20–25 per cent found in other countries). **Over-manning** is another common phenomenon, especially in railways. In communications, Telecom was found to have 60 per cent more employees per unit of service than comparable enterprises overseas. And, despite the abundance of resources devoted to these government enterprises, the quality and timeliness of their service to the community is not always what it could be. Australia Post, Telecom, rail and port services are frequently criticised in industry surveys.

Where firms are productively efficient (most GBEs obviously are not) overall efficiency in resource use is achieved when output prices reflect the marginal cost of supply. Many GBEs badly fail this test too, with charges bearing little relation to the costs of supply or the price sensitivity of demand.

The inefficiencies just described reduce the competitiveness of Australian industry in a number of ways:

- As suppliers of major infrastructure services to industry, inefficiencies in GBEs are reflected in higher costs which act as taxes on user activities, depressing economic activity.
- Even where inefficiencies are not passed on through prices – because of government subsidies – excessive resource use in these areas deprive other, more productive areas of resources (labour and capital prices are forced up).
- These result directly and indirectly in reduced competitiveness and a smaller trade share than would otherwise occur.

A simple indicator of the extent to which this matters is the substantial proportion of national economic activity accounted for by GBEs. To take one example, electricity represents about 30 per cent of the operating cost of the average aluminium smelter, but it is also an important input to industries such as metal processing and chemicals, as well as to service industries such as hospitals and hotels. As noted, the Commission has used its quantitative model of the Australian economy (ORANI) to get a more comprehensive idea of the economy-wide effects, taking account of the complex interactions among industries flowing from cost and productivity effects within GBEs. The Commission's modelling work, the results of which are reported in **Figure 4.4** (page 57) and **Table 4.1** (page 58), took account of gains from (a) re-deploying excess resources in public enterprises; (b) charging more appropriate prices; and (c) increased productivity from existing resources.

In the case of railways, for example, the Commission used information provided to the National Freight Initiative Committee, which showed that a 30 per cent reduction in costs would result from Australian railways adopting international standards of efficiency. These cost savings, when reflected in lower taxes, were estimated to raise GDP by $4 billion, once the inter-industry effects were accounted for.

Improving Infrastructure Performance

Much of the inefficiency in Australia's infrastructure can be traced to the nature of government involvement in these areas and the regulation or prohibition of competition. Managers of government business enterprises have too often had to confront their tasks with unclear and at times conflicting directions from their political masters and with limited operational flexibility. Where competition has been suppressed, government business enterprises have not faced proper incentives and disciplines to reduce costs and set charges at efficient levels. Private firms and other government authorities have not had the opportunity to show that they can perform better. And, because the costs of achieving social objectives have been obscured, governments have not been provided with the information needed to determine which services should be preserved and which discontinued. Where social objectives have been met, this has often been at higher cost to the community than necessary (IC, 1991a).

It follows that an important contribution to better performance of GBEs can be had from:

- establishing an arm's length relationship between governments and their business enterprises; and
- dismantling regulatory and legislative barriers to entry.

In recent years there have been some moves to do the first of these by '**commercialising**' and in some cases '**corporatising**' GBEs. The Commission has set out a model of what this should involve (**Table 4.2**, page 58). You will notice that the list ends with recommendations intended to bring some market (real world) discipline to GBEs. This is something which has been manifestly absent, even where governments have implemented other components of the model.

Many of the larger GBEs have statutory monopoly power. For many of these enterprises, the only source of competition is through alternative services catering to a broader market (for example, road competes with rail in the transport market). However even the scope for such '**inter-modal**' **competition** can be limited through regulation (for example, gas and electricity are both energy monopolies).

Many of these activities became public monopolies because of perceived problems in leaving them to the market place. Permitting or facilitating competition in these areas is seen as posing two sets of difficulties: a) political ones, tied up with income distributional entitlements; and b) economic issues, about the capacity of competition to improve economic efficiency. The first can be equated with 'community service obligations'; the second with considerations of 'natural monopoly'.

Community Service Obligations

Community service obligations (CSOs) present something of a chicken and egg problem for competition (see IAC, 1989 for a detailed discussion). In many cases, restrictions on competition will have been put in place to allow CSOs (which might equally stand for 'cross-subsidy obligations') to be met by government enterprises – as under-charging some users means over-charging others, and private firms don't play those games by the same rules. If CSOs could be delivered without the need for internalised cross-subsidies, the supporting barriers to entry and their attendant costs could be avoided. The Commission has given this question some consideration in a number of reports and has come up with a range of alternative ways of delivering comparable social or regional benefits, without the need for costly restrictions on competition. These include direct funding, vouchers and contracting out or franchising — i.e. competitive tendering for subsidised services. Apart from their economic advantages, these mechanisms are also more transparent; but of course this may not be seen as a political advantage and that is the nub of the difficulty in replacing them.

'Unnatural' Monopolies

Natural monopoly describes a market in which costs of provision of goods or services keep falling as market share rises, leading eventually to one 'natural' supplier, with the market to itself. The economic difficulties posed by a natural monopoly market are that:

a) having more than one supplier may be inefficient on the cost side; while

b) having just one supplier may be inefficient on the pricing side (monopoly pricing).

In practice, the conditions for pure natural monopoly are fairly stringent and not as commonly encountered as the widespread existence of public enterprise in regulated markets might suggest. Activities commonly seen as involving natural monopoly are the 'public utilities' – electricity and gas supply, water, railways and telecommunications. But natural monopoly considerations generally arise in only part of these activities. In the electricity sector, for example, the Commission found that there would be substantial net benefits from separating the natural monopoly transmission function from the potentially competitive generation function (IC, 1991b).

Some Progress

I should not leave you with the impression that the task of improving the performance of infrastructure services has not begun. Administrative reforms undertaken within many GBEs have already been having a pay-off. For example, productivity in GBEs within New South Wales has increased on average by some 35 per cent in recent years. Overmanning in railways has been significantly reduced (staff numbers have been cut by 30 per cent Australia-wide). Labour productivity in the electricity industry rose by 46 per cent and real electricity prices fell by around 12 per cent between 1987 and 1991. Turnaround times in grain shipping at Australian ports has been reduced from 4.5 to 2.4 days. (The cost saving to farmers is estimated at over

$10 million.) Restructuring in the Civil Aviation Authority have enabled it to cut its charges to industry in real terms by nearly $100 million in 1992–93. A second telecommunications carrier (Optus) has commenced operations and the consequent competitive pressure has seen significant reductions in charges for long distance calls (IC, 1992). And initial steps have been taken towards the creation of a competitive electricity supply industry throughout eastern and southern Australia.

Other Agenda Items

Industry protection and public enterprise reform are two important elements of the microeconomic reform agenda. But, as indicated at the outset, the scope for microeconomic reform is as wide as the microeconomy itself. (An indication of that can be gained from the Industry Commission's own work program, set out in **Table 4.3**, page 59).

An area in which there has already been major reform throughout the 1980s is the capital market. Important changes have included the floating of the currency, removal of exchange controls, opening up banking and the stock market to greater competition (local and foreign) and removing constraints on interest rates. These reforms are allowing greater innovation and responsiveness in the finance sector, and making capital available (at a price) where it was often not available before (IC, 1991*e*).

An area in which some important moves have been made, but where more remains to be done, is the labour market. More flexible labour markets are necessary if we are to build a more responsive and productive economy. They are also a precondition for full employment – in the traditional sense of the term. This will not only require changes in such areas as the spread of working hours, multi-skilling and, upgrading skills, but also allowing wage differentials to widen to attract resources where they are most wanted without causing flow-ons to other areas.

There is now growing awareness that the key to improved labour market performance lies in finding solutions within enterprises rather than at the national level – graphically illustrated by the 40 per cent productivity boost that resulted from the agreement at the SPC cannery in Victoria. However, Australia's labour market customs, laws and institutions are not conducive to flexibility at the enterprise or workplace level. Achieving genuine decentralisation of industrial relations represents a major political challenge, but one with a potentially high pay-off to the Australian economy and national employment.

Transition Issues

The benefits from microeconomic reforms, unlike those from some other economic policy initiatives, will continue and even increase over the long term. But in the short term, as with any policy change, costs are incurred.

Previously sheltered activities contract, just as others that had been penalised expand. By definition the two sets of activities differ in their production structures and the skills they require. Some workers become unemployed. The least skilled, or those with skills that were only appropriate to the previous regime, have difficulty finding new jobs. They can be accommodated only by learning new skills and/or receiving lower wages in the meantime. To the extent that these things do not happen, national output is foregone. This indicates the importance of education, training and wage-setting mechanisms in the reform process - areas which, as noted, have some way to go.

These adjustment problems are compounded in a recession. Contracting activities contract faster, expanding activities expand less. Structural and cyclical unemployment are combined. It is natural in these circumstances that the causes of business failure and unemployment will be confused and that there will be calls to halt, pause or perhaps even reverse microeconomic reforms. Such calls have been quite vocal recently in relation to the tariff phase-down. There are several good reasons why it would not be advisable for the Government to heed them (and presumably why it hasn't):

- As already shown, the tariff reform process is a gradual one, allowing most protected activities time to adapt or scale down their activities without major dislocation. In the case of the textiles, clothing and footwear industries, and motor vehicles, one problem is that adjustment pressure has come so late. Even so, these sectors currently have effective rates of assistance ranging from 7 to 12 times the average for other manufacturing industries (see for example, IC, 1991c).
- It is by no means clear that halting or even reversing tariff reductions would be employment enhancing. Protection delivers benefits to some industries only by hurting others. A job saved in a car factory may end up costing a job in an electronics firm. (In any case protection has never been very effective in safeguarding jobs even in the highly protected sectors.)
- Finally, protection reform is not something which governments should or could turn on and off like a tap. Investment decisions are based on expectations about the policy environment some years hence; policy change creates uncertainty, increases risk and depresses investment generally. Added to this is the political reality that once industry became conscious that tariffs were once again on the drawing board, they would again start lobbying for differential treatment. Once back up, it would be a new political struggle to get them down again. In the meantime, valuable managerial time would be diverted from the proper business of the firm. In short, we would be back into all the reasons why tariff reform was needed in the first place.

The adverse impact of protection reform on particular industries can be significantly reduced by complementary reforms which serve to reduce all industries' costs. As noted, a major source of cost and competitive disadvantage for Australian firms has been the inefficiencies in publicly provided infrastructure services, notably energy, transport and communications. Reforms have begun in these areas but much remains to be done. It would be foolish however to insist that protection reform be held back until these other cost-reducing reforms have made more progress. Tariffs themselves impose costs on user industries. Perhaps more importantly in practical terms, it is the tariff reform process which has been providing much of the incentive and discipline for reforms in these other important areas.

Australia has had economic booms and busts throughout its entire history, including in the period of high industry protection. This reflects our vulnerability to terms of trade changes, sometimes compounded by heavy-handed monetary policy responses. Microeconomic reform cannot redress macroeconomic imbalances, but it can facilitate recovery and bring greater stability to the economy in the long term by:

- making firms more internationally competitive, thus allowing them to take advantage of much larger markets beyond our own;
- freeing up resources to allow an upswing to concentrate on expansion of our more productive activities; and
- increasing the flexibility of the economy generally, allowing more rapid adjustment to future shifts in demand.

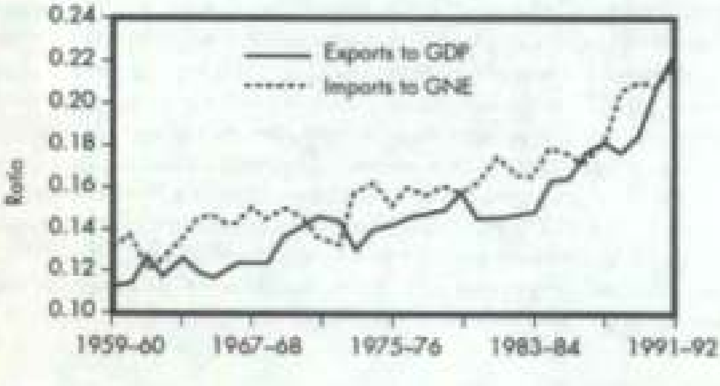
Conclusion

In conclusion, 'microeconomic reform' is about changing government industry policies and institutions in ways which will lower the costs and enhance the productivity of industry. The consequent improvements in the competitiveness of industry will yield substantial benefits to Australia's economy and population – through export growth and higher domestic incomes. These net benefits cannot be realised without making some groups in our society worse off, at least for a time. The problem we face as a nation is that preserving arrangements which favour such groups could end up impoverishing us all. Achieving community understanding of why that is so is a big part of the solution. Fostering that understanding is ultimately the function of our political representatives. But it is a task in which the Industry Commission has played some part and indeed in which teachers of economics have an important contribution to make.

Figure 4.1 **Growth in export shares and per capita GDP (1960–85)**

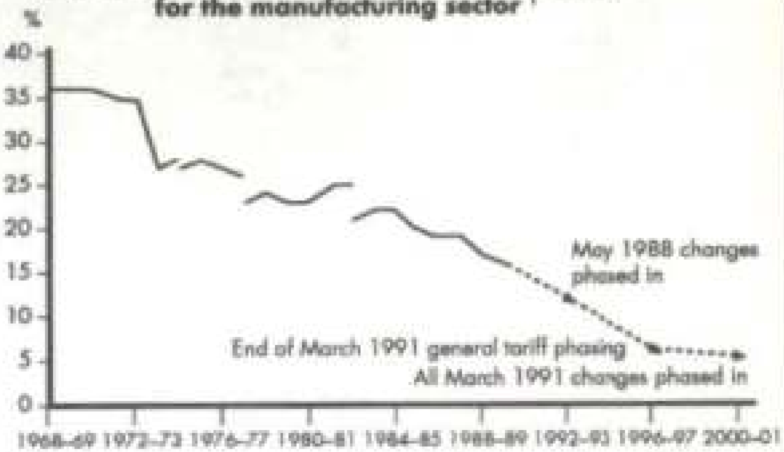
Source: EPAC (1987)

Figure 4.2: **Export and import shares**[1]



[1] Exports to GDP and imports to GNE, at 1984–85 prices

Figure 4.3 **Average effective rates of assistance for the manufacturing sector** [1]



[1] The discontinuities represent a rebasing of the estimates using updated sales and cost data. Each of the four series is based on fixed patterns of production and materials usage (IAC 1985).

Source: Commission estimates

Figure 4.4: **Annual output gains from certain microeconomic reforms**

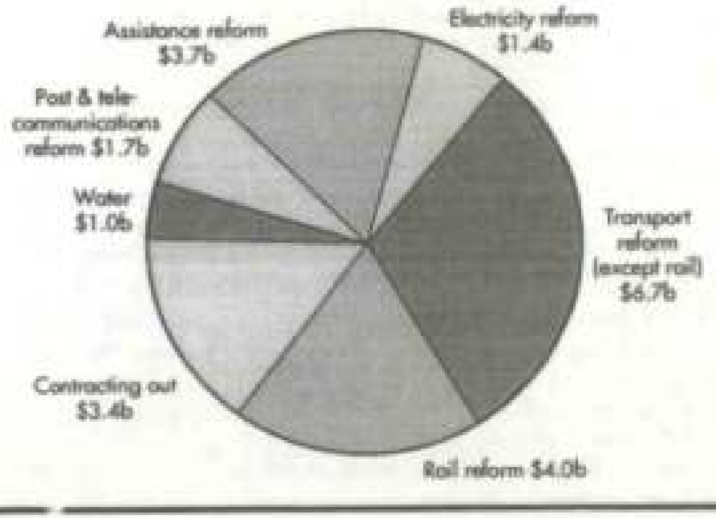


Table 4.1: **Estimating long-run effects of certain microeconomic reforms**

	Reform of: Transport excluding rail	Post and telecommunications	Electricity supply	Rural and manufacturing restrictions	Improved provision of water services	Rail transport	Contract out	Total
Real GDP	2.0	0.5	0.4	1.1	0.3	1.2	1.0	6.5
Export Volume	2.5	0.7	0.4	8.6	0.3	3.4	1.7	17.6
Import volume	3.3	0.3	0.2	6.2	0.1	1.0	0.5	11.6
CPI	–2.4	–0.3	..	–3.8	–0.2	0.3	–0.8	–7.2
Real pre-tax wage rate	4.5	0.6	0.5	1.6	0.4	0.8	0.8	9.2
Aggregate employment (persons)	0.4	..	..	0.1	..	..	0.1	0.6

Table 4.2: **The Industry Commission model of corporatisation**

- provide clear and non-conflicting objectives that relate to commercial performance only;
- identify, cost and directly fund any community services from the budget so as to make subsidies transparent;
- vest management in a commercial board accountable to Parliament through a minister;
- introduce performance monitoring based on financial and non-financial targets and establish a system of rewards and penalties for managers related to performance;
- separate out regulatory functions — an enterprise should not be both umpire and player;
- make authorities liable for all taxes and government charges;
- require dividends at levels equivalent to similar private companies;
- remove constraints such as government employment policies and advantages such as those associated with government borrowing guarantees;
- require adoption of uniform and commercial accounting practices;
- make corporatised authorities subject to the Corporations law;
- introduce effective natural monopoly regulation and remove advantages such as:
- exemptions from the Trade Practices Act that do not apply to private companies; and
- remove regulatory and legislative barriers to entry.

Table 4.3: **The Industry Commission's agenda on microeconomic reform**

Some inquiries completed:

Mining and Minerals Processing
Energy Generation and Distribution
Rail Transport
Availability of Capital for Business
Exports of Health Services
Exports of Education Services
Regulation of Intra-State Aviation
Water Resources and Waste Water Disposal
Urban Land-Use and Infrastructure Pricing
Mail, Courier and Parcel Services

Some current inquiries:

Impediments to Regional Adjustment
Urban Public Transport
Public Housing
Port Authorities
Workers Compensation

Some forthcoming inquiries:

Research and Development
Defence Procurement

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5

A CASE STUDY OF EXPORT SUCCESS: MINING

ROGER HARDING

MARKETING MANAGER (EUROPE)
BHP AUSTRALIA COAL

Roger Harding is the Marketing Manager (Europe) for BHP Australia Coal Limited. He joined the BHP Company in 1958 and worked in the steel division before moving into marketing where he spent six years in Japan as BHP's sales representative. In 1982, Roger became the Marketing Manager for the Gregory Coal Mine in Queensland. His present responsibilities include overview of trade finance plus the administration of human resources within Marketing.

A CASE STUDY OF EXPORT SUCCESS: MINING

ROGER HARDING

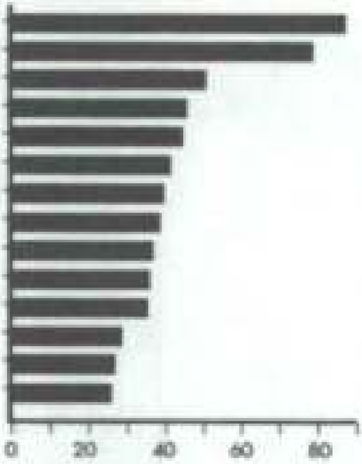
Table 5.1: Cost competitiveness means:

- Eliminating inefficient work practices
- Fostering new R & D
- Convincing governments to be competitive
- Encouraging internationally-competitive shipping

Today I would like to outline for you how BHP Australia Coal Limited has grown into the position where we are now the world's largest in internationally traded seaborne coal (**Table 5.1**). There are a number of larger producers of coal in the world (see **Figure 5.1**) but most of their production goes to power plants and steel producers within their national borders.

Figure 5.1: **Ranking of western world's major producers of black coal 1992**

Company[1]	Country[2]	Production[6] ('000 Tonnes)
British Coal[3]	U.K.	87,700
Peabody Holding	U.S.	78,835
Consol	U.S.	50,925
Ruhrkohle AG	Germany	45,200
BHP[4]	**Australia**	**44,750**
Amcoal[7]	S. Africa	41,600
Royal Dutch Shell	Netherlands	39,600
Sasol[8]	S. Africa	39,000
Amax Coal	U.S.	37,300
Arco Coal	U.S.	36,110
Exxon Coal & Minerals	U.S.	35,850
Randcoal[9]	S. Africa	29,310
Texas Utilities	U.S.	27,200
Gencor[5]	S. Africa	26,500

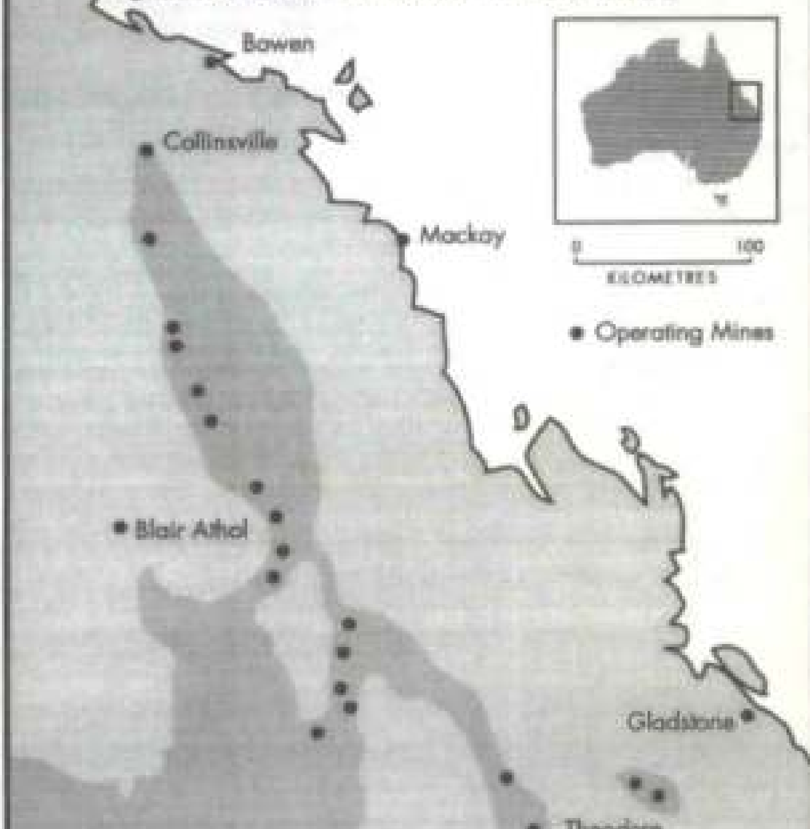


Notes:

[1] Data is for the calendar year 1992 unless otherwise indicated.
[2] Country in which the company headquarters is located.
[3] Year ended March 1992.
[4] Year ended May 1993 (measured on an ownership basis).
[5] Year ended June 1993.
[6] The production figure for BHP is wholly of raw coal production. However, it is difficult to ensure that this is the case for each of the other producers listed.
[7] Year ended March 1993.
[8] Year ended September 1992.
[9] Year ended June 1992.

Firstly, let me set the scene historically of how BHP came to this position. Utah Construction Company came to Australia after the war to assist in the construction of the Snowy Mountains Scheme. They branched out from there into exploration for minerals and mining; opening up the Blackwater Mine in 1967.

Figure 5.2: **Bowen Basin, central Queensland**



This was followed by major developments in coal mine construction throughout the Bowen Basin (**Figure 5.2**) and a new private port at Hay Point to service the four northern mines.

Utah opened major mines: Goonyella in 1971; Peak Downs in 1972; Saraji in 1974; and Norwich Park in 1979.

While Utah was breaking new ground in developing coking coal mines to service basically the growing Japanese steel industry, Sir Leslie Thiess had already developed a mine at Moura in 1961. BHP, with Mitsui, purchased this mine in 1977 and it is now part of the group of mines managed by BHP Australia Coal.

In 1983 Thiess Dampier Mitsui (now BHP Mitsui Coal) developed the Riverside Mine, now also part of the group – and which has been merged with the Goonyella Mine because the leases are adjacent and this allows cost savings, and improves the competitive edge.

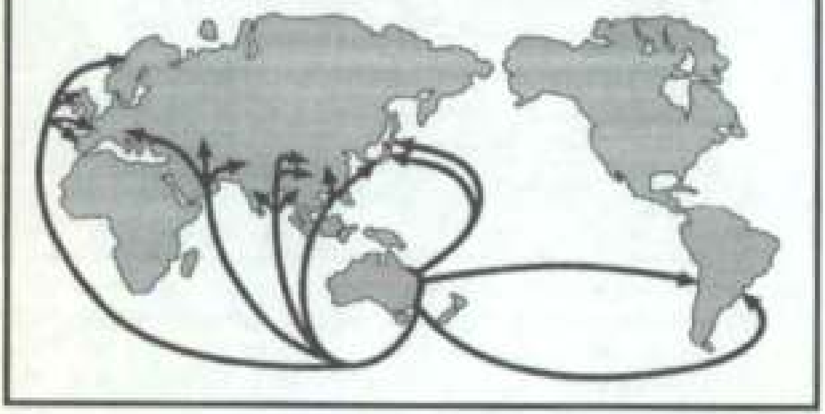
BHP itself held aspirations to further increase its involvement in coal and it developed the Gregory Mine near Emerald, west of Rockhampton, in 1979.

Finally, in April 1984 all this came together when BHP purchased Utah Development Company from General Electric. The total group of seven mines is now managed by BHP Australia Coal Limited.

Obviously when constructing mines that are planned to produce something in excess of four million tonnes each, bankers are not going to lend money to those projects without coal sales contracts.

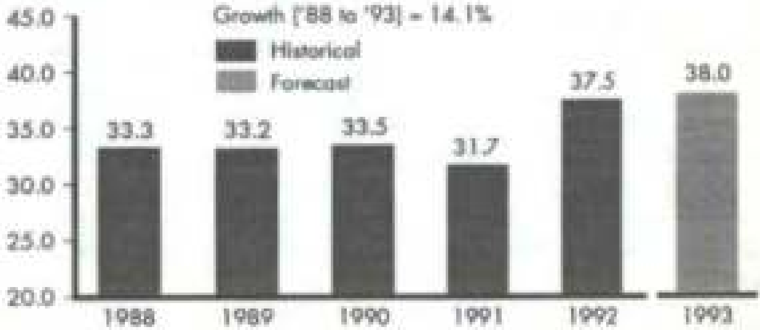
In the 1960s and 1970s the Japanese economy was taking off and underpinning this was the Japanese steel industry. Steel was needed for construction, shipbuilding and consumer goods, such as cars. Utah's management wrote long term contracts with the Japanese steel mills, with price escalation clauses, so that they could entice joint venture partners as well as banks to finance this enormous capital expenditure. The strategy was to largely place the tonnes in Japan, with the exception of coal from the Norwich Park Mine.

Figure 5.3: **Australian coking coal markets**



As in all industries, the world trade cycle intervened during the 1970s with the oil shocks and again in the mid 1980s with world recession, so management took the strategic decision in the early 1980s to diversify its customer base. We now sell about one third of our tonnes to Japan, one third in Europe and one third in the rest of the world (**Figures 5.3 & 5.4**). We now have a fairly balanced book that can withstand sector shocks. We currently supply to 64 customers in 27 countries.

Figure 5.4: **BHP Australia Coal Shipment tonnes** (100% basis millions)



Of our 38 million tonnes of production, only about 2 million tonnes of thermal coal goes to world power houses. The rest goes to the steel industry.

'Success' – how did BHP go about merging a group of coal mines with different cultures in a unit with one vision?

Table 5.2: **Vision and guiding principles**

The vision was 'To be the best coal mining company in the world'.

Our vision will be achieved by:

- By understanding and satisfying our customers' needs.
- Recognising that the employees are the most important asset – personal growth and development is essential.
- Accepting the need for 'continuous improvement'.
- Empowering employees to act with commensurate accountability.
- Demonstrating care for the community and the environment.

Working towards the above goals creates the fabric for '**Competitive Advantage**'.

Figure 5.5: **Lost time to industrial disputes** (%)

Source: January Business Report

Let me say from the outset that BHP Australia Coal already had many of the elements of competitive advantage in place. Having said that, our actual performance and our prospects still left a number of problem areas. Three years ago, our average lost time to industrial disputation was 3.6 per cent and had been as high as 7.4 per cent. Now, time lost to industrial disputes is down to below 1.5 per cent and absenteeism to 3.5 per cent (see **Figure 5.5**).

One of the early changes introduced was to progressively move away from the traditional 'them and us' style of management in relation to industrial disputes.

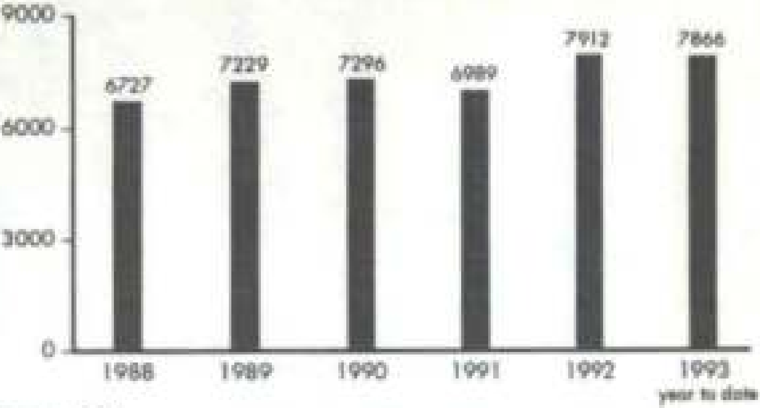
Early this year we arrived at an agreement, known as the 'Employee and Business Performance Improvement Agreement' with our employees, in an effort to have them recognise the value of 'continuous improvement'. Specifically in operational efficiency, but also to give the unions continuity of employment. This gave us a settled environment in which positive change can occur. It allowed us to improve our productivity by breaking down restrictive work practices. When one considers that all the mines are getting deeper each year, it probably equates to inherent gains of 25–30 per cent over the period.

Our productivity has increased from a rain affected 7000 tonnes per employee in 1990–91 to around 8000 tonnes in the year just ended on 31 May 1993 (see **Figure 5.6**).

The unions are on the public record as saying 'It is in our interests and the interests of all the workers employed by BHP Australia Coal, to ensure that Australian coal remains internationally competitive'.

The real trick in competitive advantage and the only thing that your competitors cannot duplicate is **people excellence** – if we have the best people and have given them the best training, we should be able to out perform our international competition.

Figure 5.6: **Product tonnes per employee**



Source: DCP

Secondly, without a strong customer focus and a thorough understanding of what our customers need and expect of us, it would be impossible to achieve our vision of becoming the best coal mining company in the world (see **Table 5.2**). Indeed our supplementary vision is to become our customers' preferred supplier – give them a service no one else gives.

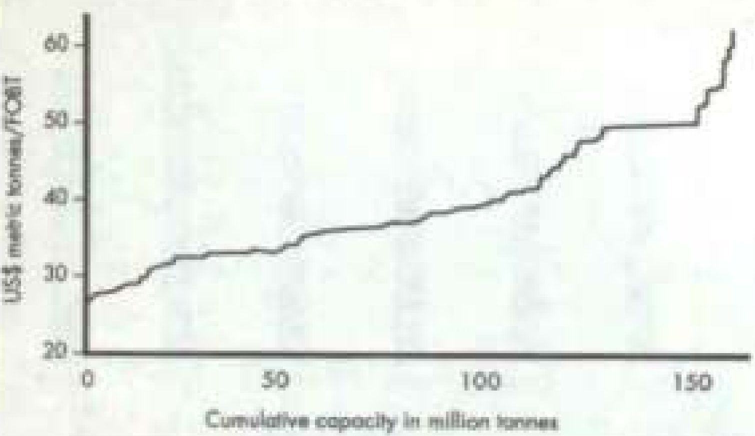
One of our natural advantages is that with the spread of qualities within the seven mines, we have the ability of being able to mix and match to suit any specification our customers need.

The quest to become the preferred supplier led us to develop questionnaire type surveys where the newly appointed manager of customer services could obtain our customers' views on our performance, assess it and disseminate the information to all levels in the chain within BHP Australia Coal. This also gave us competitors' benchmarks to which we can aspire (levels in some cases higher) .

In Australia, we are geologically blessed with excellent coal deposits, and have economies of scale and technical expertise which allow us to compete on world markets. Many competitor countries, however, have major cost advantages, for example: labour costs in Indonesia are much lower than ours, others have lower rail freights, and some countries simply operate at a loss just to create hard currency to assist in their balance of payments problems.

To maintain and reinforce our competitive advantage we need to continually ensure that we are and remain on the lower end of the cost curve (see **Figure 5.7**). This means that no matter what happens, we will have a sustainable situation.

Figure 5.7: **Seaborne metallurgical coal cash cost curve**



One of the major concerns expressed by customers is reliability of supply – particularly valid in Europe where the customer has to wait five weeks for our coal, compared to one week from our competitors. We have the ability to ship from four ports (two at Hay Point, south of Mackay, and two at Gladstone). During our last financial year we shipped 37.87 million tonnes through these facilities. The ports are currently being upgraded to accommodate new mine construction and increased supply from BHP Australia Coal.

The link in the chain to the ports, the Queensland Railways – although expensive by world standards, because the rail freights levied include hidden taxes – do in all fairness perform an excellent service. They are also committed to 'Quality Assurance'.

We have consciously developed over the years the ability to ship about one third of our product in vessels specifically chartered by BHP Transport under Contracts of Affreightment. Spot shipping freight rates can be extremely volatile, so our planning has allowed us to have a cushion where we can deliver coal to Europe at prices that are competitive with American and Canadian coal suppliers which are, of course, much closer to the European markets. This is the last link in the chain of moving coal from the mine to the customers' plants.

Most of our customers in one form or another are pursuing a philosophy of Total Quality Management, Continuous Improvement, Quality Circles, etc. They are pushing us, as a major supplier, to follow suit.

To develop a further arm in our competitive advantage we are evolving a Quality Assurance system. Our Gregory Mine is 'quality assured' by an independent third party. This system was the first in the world, as far as we can judge (although one of BHP Steel's collieries is now third party accredited). Once all our mines are quality assured (and the aim is by the middle of 1994), we will have a competitive advantage, particularly with those customers who will eventually only purchase from mines which are quality assured. It is worthy of note that the state government owned ports and the railways are also going the quality assurance route.

As you would be aware, BHP's philosophy over the years has been to vertically integrate. We have a distinct advantage over our competition by not only supplying the three major raw materials: iron ore, coal and manganese, to the world's steel industry, but also having an early warning system on changing technologies. BHP Group 'think tank' teams have been set up to look at likely developments over the next thirty years in the world steel industry, so that we can ensure that we are ready for any eventuality. In the words of the inimitable Inspector Clouseau, 'Always expect the unexpected'.

Lastly but not least, we have developed our own system of 'counter trade'. The actual customers and potential ones in the old Eastern Bloc, who do not have any hard currency, can still be supplied with raw materials by using Counter Trade.

The overlying concept in looking at a successful export company must be predicated on a return to shareholders. There is little point in companies producing competitively for world markets at low cost and excellent quality, if the organisation fails to justify its existence by not making a return to the shareholder. As we saw after the stock exchange crash of 1987, those who take their eyes off the ball usually end up in the hands of the liquidators.

By remaining responsive to market demands and changing technologies, we intend to be a major force in world coal markets into the future.

Reference

BHP Australia Coal (1993), *Draft Strategic Plan*.

6

THE ROLE OF CAPITAL MARKETS IN PROMOTING GROWTH AND EXPORTS

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THE IMPORTANCE OF CAPITAL MARKETS IN PROMOTING GROWTH AND EXPORTS

ALEX FRINO

The role of a capital market within a market economy is to allocate the savings of the community to different investments so as to maximise social product. It controls the volume of savings available for investment, as well as the composition of economic activity. As a result, the capital market influences the production of goods and services which underlie economic growth and exports.

The savings of the community are provided for investment purposes to companies (producers) in two broad forms, as debt or equity finance. Debt finance entails a contractual promise from the borrower (company) to repay the principal plus a fixed rate of interest. Equity finance, on the other hand, is provided without a promise to repay the original contribution or a particular rate of return. However, the provider of equity finance is entitled to a share in the profits of the company as dividends. Further, the right to receive dividends (shares) can be sold to others in a market such as the Australian Stock Exchange (ASX), so as to realise the initial funds provided. The ASX also facilitates the initial sale of shares so that companies can raise capital.

Table 6.1 provides some data which shows evidence of the importance of share finance as a source of funding for investment in Australia. Estimates consistent with Jackson (1989, p. 344–345), regarding the sources of external finance provided to private corporate trading enterprises in Australia are produced. The table demonstrates that the finance for investment ('all capital expenditure') of corporations is derived from three broad sources: internal finance or undistributed profits ('gross savings'), share finance ('ordinary and preference shares') and debt finance ('loan finance').

The table provides historical evidence which suggests that share finance is one of the most important sources of finance for capital expenditure in Australia. The average proportion of capital expenditure financed through share issues has been approximately 90% over the last eleven years, whilst loan finance has accounted for the other 10%. Taken together with the role of capital markets, this data suggests the importance of an efficiently operating stock market for growth and exports.

Table 6.1: **Sources of finance for capital expenditure by private corporate trading enterprises**

		$ million				
		Internal finance	External Finance		Percentage of External Finance	
Year	All Capital Expenditure[1]	Gross Savings[2]	Ordinary & Preference Shares	Loan Finance[3]	Share finance[4]	Loan finance
1980–81	10,339	6,737	2,717	885	75	25
1981–82	12,982	4,955	1,392	6,635	17	83
1982–83	10,172	4,510	1,185	4,477	21	79
1983–84	11,131	8,919	2,254	(42)	101	(1)
1984–85	14,514	9,695	2,710	2,109	56	44
1985–86	16,803	10,821	5,890	92	98	2
1986–87	21,545	16,048	16,081	(10,551)	292	(192)
1987–88	26,894	17,875	13,395	(4,376)	149	(49)
1988–89	32,867	19,027	10,952	2,888	79	21
1989–90	31,678	15,809	9,147	6,722	58	42
1990–91	27,493	12,536	6,596	8,361	44	56
				means	90	10

1 gross fixed capital formation *plus* increase in stocks *plus* purchase of land and intangibles

2 undistributed income *plus* provision for consumption of fixed capital *plus* increase in tax provisions *plus* capital grants and revenue

3 capital expenditure *less* gross saving *less* share finance

Source: 1980–81 to 1985–86, Jackson, 1989, Table 7.11, p. 344–345. 1986–87 to 1990–91, Australian Bureau of Statistics, *Australian National Accounts 1990–1991*, (5204.0), Table 38, p. 30; *ASX Annual Reports*, various issues.

The attractiveness of investing in ASX listed companies is influenced by the costs involved in trading shares. Further, in order for finance to be directed to the more profitable projects which crop up from time to time, mobility of funds is essential. This is also influenced by the cost of trading shares. The implication of this is that an *operationally efficient* market is one in which the costs of trading are minimal. The ASX has increased its operational efficiency over the past ten years through a number of changes which have served to reduce the costs of trading shares. These include:

- the abolition of fixed commission rates for brokers in 1984;

- the abolition of restrictive ASX Membership requirements in 1984;
- the reduction of restrictions on short selling in 1986;
- the introduction of automated order placement and execution, and a national market system through the introduction of the Stock Exchange Automated Trading System (SEATS) in 1987;
- the introduction of rapid settlement procedures in 1989 through the Flexible Accelerated Security Transfer (FAST) which led to T+5 (a five day settlement period) in 1992; and
- future developments in trading and settlement, supporting international competitiveness through the introduction of the Clearing House Electronic Subregister System (CHESS) which will lead to T+3 (a three day settlement period).

The way in which each of these measures improved, or will improve, the operation of the ASX will be discussed next. It is emphasised that the efficient operation of the ASX is crucial, given the importance of the market for the provision of capital in order to finance investment for the production of goods and services, which contribute to growth and exports.

Improvements in the Facilitation of Trade

The Abolition of Fixed Commission Rates for Brokers

Up until 1984, clients were charged a commission by brokers for the execution of trades, which was fixed by the Exchange. However, on 1 April 1984, these fixed commission rates were abolished. Brokers were permitted to negotiate with their clients, and to compete with other brokers, by setting their own commissions. The general effect of this deregulatory measure was to decrease the commissions charged by brokers, and hence the cost of trading.

Aitken (1990) provided evidence that negotiated commission on trades is significantly lower than the commissions charged under fixed rates. **Table 6.2** and **Figure 6.1** below illustrate this point. Although commissions fell for the bulk of trade, **Figure 6.1** also suggests that commissions on the smallest category of transactions were higher after deregulation. Despite this, the data supports the notion that the removal of fixed commission rates lowered brokerage commissions in *general*, and led directly to lower costs of trading.

The Abolition of Restrictive ASX Membership Requirements

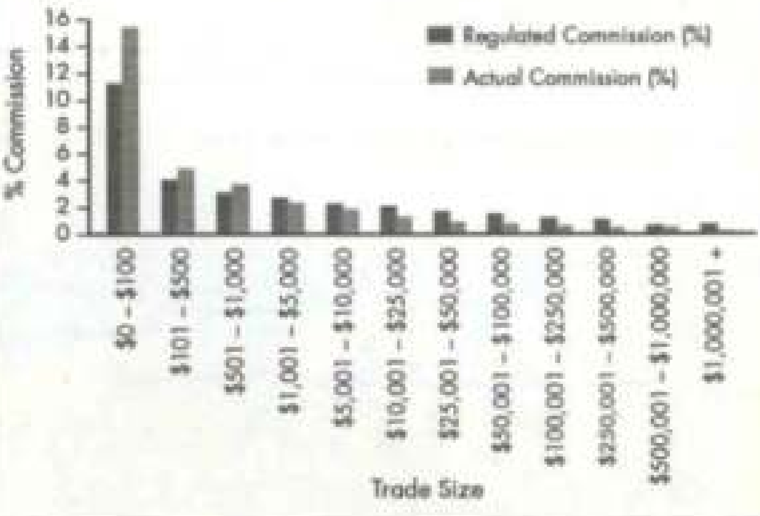
At the time that fixed commissions were deregulated, the restrictions on broker Membership requirements of the ASX were also relaxed. The main regulation that was relaxed was the prohibition on corporations from be-

Table 6.2: **Actual versus regulated brokerage commissions as a percentage of consideration for April 1984**

Trade Value ($)	Regulated Commission (%)	Actual Commission (%)	Change
0–100	11.3	15.4	36%
101–500	4.2	5.04	20%
501–1,000	3.2	3.74	17%
1,001–5,000	2.8	2.53	–10%
5,001–10,000	2.4	1.96	–18%
10,001–25,000	2.1	1.4	–33%
25,001–50,000	1.8	0.96	–47%
50,001–100,000	1.5	0.85	–43%
100,001–250,000	1.3	0.72	–45%
250,001–500,000	1.1	0.6	–45%
500,001–1,000,000	0.8	0.58	–28%
1,000,001+	0.8	0.18	–78%

Source: Aitken (1990), Table 8, p. 234.

Figure 6.1: **Brokerage commissions for April 1984**



coming Members. Prior to 1984, only natural persons could become Members of the ASX. One of the arguments in favour of relaxing Membership requirements on the ASX, was the promotion of competition amongst brokers which led consequently to a reduction in the costs of trading.

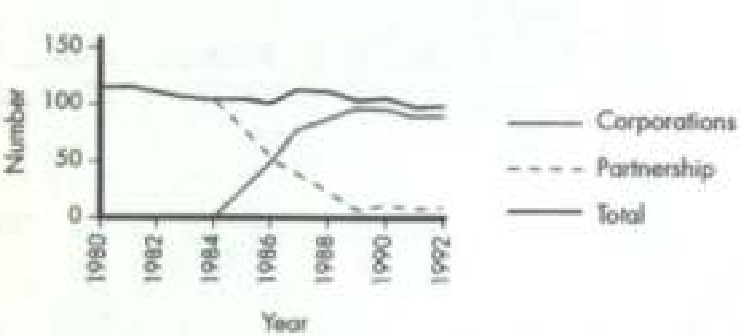
The effect of the relaxation in Membership requirements on the number of members is demonstrated in **Table 6.3** and **Figure 6.2** below. Total Membership numbers have declined slightly, probably as a result of the increased competition in broking. There has also been a swing from partner-

Table 6.3: **Stock exchange membership 1980 to 1992**

Year	Corporations (No)	Partnerships (No)	Total
1980	–	115	115
1981	–	116	116
1982	–	112	112
1983	–	107	107
1984	–	105	105
1985	25	80	105
1986	48	53	101
1987	76	38	114
1988	88	24	112
1989	97	7	104
1990	96	10	106
1991	90	8	98
1992	90	9	99

Sources: Aitken (1990), Table 4, p. 228;
ASX Annual Report, various issues.

Figure 6.2: **ASX members from 1980 to 1992**



ships to corporate Membership. These two patterns have arisen from the increased competition in broking, as well as the cost benefits of incorporation of broking firms (limited liability). Both of these factors, in turn, may have acted to reduce the costs of trading on the ASX.

The Reduction of Restrictions on Short Selling

Short sales take place when market participants sell shares which they do not own. Often, market participants go 'short' at the current price, when the stock price is expected to go down, and then 'settle' at the later lower price. What occurs is a sale at a higher price and a purchase at a lower price. This results in a profit to the market participant 'going short'.

In July 1981, a companies code which applied uniformly throughout Australia was introduced. Section 68(1) of the code prohibited short selling of stocks. In March 1986, section 68(3)(*e*) was added, which permitted short selling of stocks that were 'approved' by the Exchange. In April 1986, the ASX introduced a **Business Rule** which 'approved' stocks for short selling. A list of 57 ordinary stocks was originally included in the business rule, and therein those stocks could be short sold. This list has now been extended to include over 200 stocks.

Permitting stocks to be short sold meant that sellers who did not own stocks could move into the market. It can be argued that such sellers decrease the time it takes to buy a stock, and increase competition for the supply of stocks which could thus improve the price obtained by buyers. Taken together, these effects could act to reduce the overall costs of trading, through reducing the cost of finding the lowest selling or highest buying prices willing to be received or paid by other market participants.

Automated Trading and a National Market System

Prior to 1987, all stocks were traded on the floors of Exchanges in six different cities, namely Sydney, Melbourne, Adelaide, Brisbane, Hobart, and Perth. All orders were passed to brokers on these trading floors who would yell them out to 'chalkies', who, in turn, chalked up the best bids and offers for each stock. This 'open outcry' process was replaced with a computerised system in 1987 called the Stock Exchange Automated Trading System (SEATS). SEATS was introduced in April 1987 for 20 stocks, and by October 1990 it operated for all stocks.

SEATS effectively centralises all trading by placing SEATS terminals in brokers offices, in which orders to buy or sell stocks can be placed by Members, and which are then displayed to all other Members in Australia. Bids and offers which match are automatically executed by SEATS. The effect of SEATS is thus twofold. **Firstly**, it automates the process of placing an order and executing a trade. **Secondly**, it consolidates the individual markets which previously operated on the different trading floors around

Australia. The introduction of SEATS is argued by many to quicken the process of executing trades and finding buyers and sellers. This in turn improves prices which are willing to be submitted by buyers and sellers, and thus improves the time and costs of trading.

Improvements in Settlement Procedures

Prior to 1989, a trade in stocks was usually settled when a payment was made and stock ownership changed hands through the physical transfer of a share certificate. In July 1989, the ASX introduced the Flexible Accelerated Security Transfer System (FAST) which eliminated the need for share certificates to change hands. This led to the introduction of a five day settlement period following transactions (T+5), in which all trades were to be settled by brokers within five days of the transaction in order to avoid Exchange imposed fines.

The purpose of these changes was twofold. **Firstly**, to reduce settlement time. **Secondly**, to reduce the administrative costs associated with trading. These factors led to significantly reduced overall costs of trading.

Further Improvements in Trading and Settlement

Further improvements are foreseeable with the development of the Clearing House Electronic Sub-register System (CHESS). CHESS will enable the electronic transfer of title, which will eliminate the need for a paper transfer document. This will enable a move to T+3, which is settlement of transactions three days after the trade. This is argued to further improve the costs and willingness of market participants to trade.

The Effects on Liquidity

Liquidity can be defined as the ease with which a trade can be executed. One of the primary determinants of liquidity is transaction costs, or the costs of trading. Obviously, the lower the transaction costs, the less costly it is to trade, and the easier it is to trade. Thus, the measures introduced by the ASX outlined above, may have contributed to a more liquid market.

The liquidity of the ASX can be gauged by examining its turnover. Turnover is the value of trading over a certain period of time. However, market turnover may also be influenced by the number of shares available for trading and the value of shares in the market (the product of which is market capitalisation), both of which are unrelated to liquidity or transaction costs. This suggests that the appropriate measure of market liquidity is market turnover divided by market capitalisation. This is called the 'Liquidity Index' by the ASX.

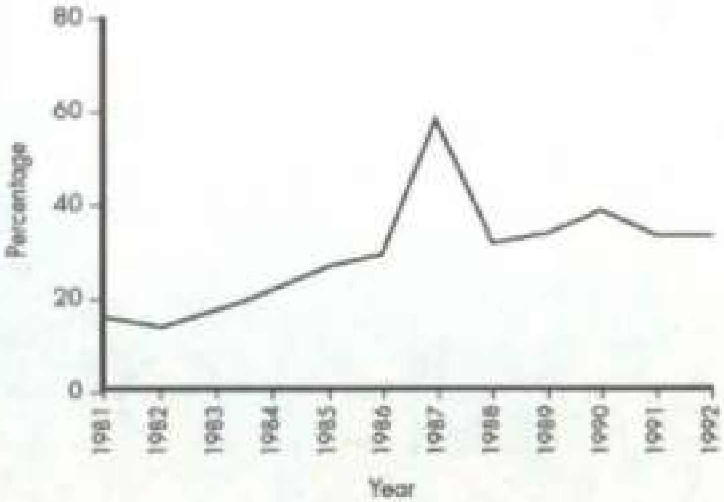
Table 6.4 and **Figure 6.3** provide evidence of the favourable impact on liquidity of the introduction of the changes outlined, by suggesting that a general increase in liquidity occurred over the period in which they were introduced. The boom in liquidity in 1987 is a product of the stock market

Table 6.4: **The liquidity of the Australian stock market**

Year ended June 30	Total Market Capitalisation (Main Board)	Total Equities	Liquidity Index
1981	$43,000	$6,905	16%
1982	$36,280	$5,019	14%
1983	$58,916	$10,343	18%
1984	$57,288	$12,279	21%
1985	$85,555	$22,455	26%
1986	$137,060	$39,835	29%
1987	$140,691	$81,202	58%
1988	$156,570	$48,860	31%
1989	$172,355	$56,636	33%
1990	$136,114	$51,421	38%
1991	$185,725	$60,126	32%
1992	$192,299	$62,248	32%

Source: *ASX Fact Book 1993*;
Market Statistics 1981–1992, p. 33.

Figure 6.3: **Liquidity Index**



crash, which slowed down the growth in market capitalisation, and increased market turnover.

The changes introduced in trading by the ASX over the 1980s have facilitated share trading, and reduced the costs of trading. This is evident in the improvements in liquidity since 1980. It was argued that the facilitation of trade in shares is crucial for an operationally efficient capital market, which, in turn, leads to a better allocation of society's resources towards more profitable projects. The improvements in stock market liquidity are especially important in Australia, since a major proportion of finance for investment is derived from the stock market. Hence, the implication is that the improvements in liquidity on the ASX are conducive to an efficient allocation of societal resources, both of which are important to production for economic growth and exports.

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7

BUSINESS-EDUCATION LINKS: SOME IMPLICATIONS FOR ECONOMICS EDUCATION

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Ted Hook has been involved in teaching and training for 35 years. He has taught in state and private primary and secondary schools, TAFE colleges and universities. Before taking up his present position, Ted trained teachers at the University of Canberra and the Queensland University of Technology. In 1980, he was awarded a research grant to prepare teaching materials about the operation of business which lead to Jacaranda Wiley Ltd publishing *The World of Business* text and workbooks in 1982 and in 1990. Since 1980, Ted has conducted over 120 Business and Teacher Workshops around Australia bringing together over 8000 teachers and business people. Ted conducts an independent and private careers consultancy, BEARS of Australia, which also designs and teaches introductory accounting courses conducted by Coopers & Lybrand for first year undergraduates and people operating small business enterprises. In his teaching for USQ, Ted continues to establish close links with business groups and conducts 'Tertiary Talkback' on Queensland's regional ABC radio.

BUSINESS-EDUCATION LINKS: SOME IMPLICATIONS FOR ECONOMICS EDUCATION

TED HOOK

It is a pleasure to accept Tim Riley's invitation to promote discussion on economics and the impact of Business Education Links (BEL). This third annual National Economics Teachers' Conference is one excellent example of the increasing co-operation taking place between business groups and educators. The Economics Education Resource Centre (EERC) and the major sponsors of this conference, the Australian Bankers' Association, the Australian Stock Exchange and Coca-Cola Amatil Ltd are to be congratulated on providing an opportunity for some of the nation's leading teachers in economics literacy education to come together in this part of Australia, where 'It is beautiful one day, perfect the next!'

Back To The Future – An Economic Top Ten!

Some of us present today can remember an Australian economy with:

- Strong, stable, national leadership led by our longest serving prime minister, the late Sir Robert Menzies.
- Full employment with 96–98% of the labour force being in full time jobs.
- One of the world's highest standards of living as measured by per capita income.
- Ongoing surpluses on the current account of the balance of payments.
- Sustained economic growth fuelled by high levels of domestic savings where people were encouraged to finance their own retirement.
- Expanding agricultural, pastoral, mining and manufacturing industries financed, in part, by significant levels of capital inflow from non-Asian countries.
- Well-trained and mobile defence forces that had seen service in many theatres of war and a community acceptance of national service.
- An international reputation in the arts, music and sport with the 1956 Melbourne Olympics and tennis supremacy being highlights.
- A rigorous and somewhat authoritarian primary and secondary school system, staffed by teachers held in high community esteem and supported by an efficient inspectoriate system.

- A small, compact university system, internationally recognised for its scholarship and research, with entering students selected on ability and who competed for places via an accepted system of:
  - Commonwealth government scholarships based on merit;
  - State government bursaries for nursing and teaching;
  - Business funded and bonded scholarships that guaranteed jobs.

Of course, the world facing this young student teacher thirty five years ago was not perfect. However, it was a period of relative stability and certainty with respect for the law because it was visible and enforced. There was admiration for and school learning about the achievements of our pioneers and achievers both past and present. Society encouraged competition and independence without large numbers of people relying on a variety of 'hand outs', although we learnt about protection and tariffs and subsidies for our farmers and manufacturers.

Looking back to the future, the Australia of twenty, thirty years ago had very different emphases on what mattered. Attitudes towards the individual, the family, the school, the workplace, the sports field and the community were different. A short, fireside chat with your parents or your grandparents will tell of a different society – one it seemed where there was a place for everyone and everyone had a place! It seemed to be an economy that provided jobs and a relatively debt free society without credit cards!

Back To The Future – Two Decades of Change in Education

Much has been written and spoken in other places about the changes that have occurred in Australian education since the end of World War Two, almost fifty years ago. Some of the changes have been for the better, some have not. One feature of the past two decades has been the frequency of change and the almost continual need for someone, somewhere to commission a report or enquiry into some aspect of schooling and further education. Perhaps, an issue on which most educators agree is the need for less change, less interference and more stability to allow past changes to be consolidated. Teachers would like to get on with what they enjoy and do best which is to teach and challenge the inquiring minds of young Australians.

Economics teaching has been one discipline that does not seem to have experienced significant change. For example, the Queensland Senior Economics syllabus remains largely unchanged since a group of teachers wrote the course nearly twenty years ago. Today, there is considerable attention being paid to national curricula and nationally produced resources to meet the needs of core courses of study. Almost twenty years ago, this writer led a group of economics teachers under the auspices of the Australian Commercial and Economics Teachers' Association (ACETA) to form APEL – the Australian Project for Economic Literacy.

Our request to the newly established National Curriculum Development Centre (NCDC), on the advice of the then Federal Minister for Education, Mr Kim Beazley Snr, was for funding ($850000) to research, prepare and publish national resources in teaching secondary economics. APEL was carefully researched and costed with input from each state and territory. Our submission was the first presented to the NCDC in the social sciences area. Another project submitted and funded at that time was ASEP – the Australian Science Education Project. As history will show, APEL was not accepted by the NCDC. Instead the Social Education Materials Project (SEMP), was accepted. It came as no surprise to find much of our philosophy and many of our ideas formed part of SEMP which no longer exists today.

Economics teachers in Australia and New Zealand have been at the forefront of business-education links. For the past thirty years we have, through our teacher subject associations, worked closely with the business community in both the private and public sectors. This conference continues to show how teachers of economics and related subjects can co-operate with business at local, state, national and international levels to improve student understanding.

Coming To The Future – Some Business-Education Links

One of the earliest business-education links involving teachers of economics were the links with the Australian Chamber of Commerce and its state chambers. The Australian Chamber's Economics Education Project in the 1970s led to a range of teaching resources being researched and written by teachers and produced, funded and distributed by business. One of the aims of these print and audio visual resources was to present to teachers and students, information describing the operation of the Australian economy, some of its past achievements and future challenges. The teaching notes, tapes and videos were updated regularly. Each year, the State Chamber would fund in-service programs for teachers and their subject association would encourage members to attend.

Another example of an early business-education link was Bank Education Service (BES) sponsored by the Australian Bankers' Association. BES operated very successfully in all states and was the longest and most successful example of teachers and business people working together. The output was a wide range of current, relevant and practical teaching aids and student learning materials that were effective. These materials were welcomed by teachers because they were designed and written by known and respected colleagues. The resources were funded and checked for technical accuracy by the banks and presented to students from Years 9 to 12 by experienced bank personnel. For many students, the Speaker Service provided by BES was their first contact with business people. About ten years ago, the ABA, against the advice of economics teachers, withdrew their speaker service and reduced the scale of teaching materials.

At this time, several other national organisations established links with ACETA and state teacher associations. These groups included:

- Australian Association of Permanent Building Societies (AAPBS)
- Australian Federation of Credit Union Leagues (AFCUL)
- Australian Finance Conference (AFC)
- Australian Mining Industry Council (AMIC)
- Australian Retailers' Association (ARA)
- Australian Stock Exchange (ASX)
- Insurance Council of Australia (ICA)
- Life Insurance Federation of Australia (LIFA)
- Reserve Bank of Australia (RBA)

The expanding links with business organisations over the past twenty years have been a double-edged sword. For example, in Queensland, over 7000 secondary teachers and business people have come togrther in a unique on-going program of business and teacher workshops. In 1980, these business and teacher workshops began as a joint venture between the Queensland Economics Teachers' Association (QETA) and the Institute of Public Affairs of Queensland (IPAQ). Today, these business and teacher workshops continue and currently the IPAQ and the Queensland Department of Education, through its system of forty three School Support Centres, are jointly resourcing these after-school, after-work activities.

As a result of these business and teacher workshops, teachers and their students have gained a clearer understanding of the operation of the world of business and some of the issues facing the Australian and world economies. The other side of the sword has meant many more business-men and women have gained a clearer appreciation of some of the changes occurring in secondary schools and the challenges facing classroom teachers and administrators. One tangible result of these workshops has been closer co-operation between schools and local business firms. Another result has been general statements of support by employers for the quality of school leavers, despite the increased demands being placed on our secondary schools by society.

A list of the business-education links that the Economics '93 Conference participants and their schools have been involved in is summarised in **Table 7.1** (pages 100–101) in the Appendix.

Business-Education Links – Two Overseas Examples

The video, 'Schools are your Business', provides numerous practical examples of co-operation between schools and business firms in the Midlands region of England. It is an area with high levels of youth unemployment and a past history of few links between business and education. The video clearly shows the benefits of school-industry links to three groups:

- The students attending primary and secondary schools.
- The teachers and principals of these students.
- The staff of the business firms.

The benefits for the students were considerable and the visual impact upon the primary school pupils will last for a long time. The potential for economic literacy and multi-disciplinary learning from the video is enormous as students learnt about the production of goods and services and the decision-making processes involved. It seemed very clear that the enjoyment shown by these British teenagers surpassed the 'chew and spew' which still characterises a great deal of our teaching. The willingness of the students to say and write what they thought rather than what we think our teachers want us to say and write was also refreshing.

During the video, the impact of closer links between their schools and local business enterprises was quite dramatic. The willingness of some of the teachers to change their classroom teaching approaches was refreshing as a result of watching how their students learnt without their direct input. Perhaps those responsible for the pre-service training of future economics teachers may benefit.

Another refreshing aspect of the video was the open support and encouragement for the initiatives displayed by the business people. The positive comments from industry executives and the active participation of various employees was encouraging. The practice of secondment of business staff to schools as part of the job description of various employees could well be encouraged in Australia and gives added meaning to the title of the video, 'Schools are your Business'!

Some Business-Education Links Across the Tasman

There are several business organisations linked with primary and secondary schools in New Zealand. One example is The Enterprise New Zealand Trust, which is actively involved in links with secondary schools. The following summary has been provided by Mr Ken Baker, Executive Director of the Trust who is represented at this conference by Ms Kathie Willis, Manager of the Trust's Educational Programs.

Aims and Objectives of the Trust

The aim of the Trust is to promote an understanding of the role of business, enterprise and economic literacy amongst post-primary students and educators. The Trust is funded mainly by the private sector and operates nationally. Its programs promote both business and economics education and these are funded by resources from the business sector. The Trust acts as an intermediary between business and education, developing school-industry links at local and national levels. It has programs to assist students and teachers and principals.

Programs To Assist Students

The Fletcher Challenge Young Enterprise Scheme (YES)

Under the Young Enterprise Scheme, secondary students raise capital to start a company, elect a board of directors and produce and market a product. A teacher acts as the initial start-up person, with a local business mentor being the adviser. In 1993, it is expected that half New Zealand's secondary schools will participate. YES helps students to learn about business and how it operates by combining knowledge and skills from subjects including English, mathematics, physical and social sciences, technology, accounting and economics. The Young Enterprise Scheme is similar to the Young Achievers program in Australia, which in turn is related to Young Achievement, USA.

The 1993 Enterprise Studies Project

BP New Zealand has seconded a staff member to work with ten secondary schools in a pilot scheme to help students learn about business using economics skills and knowledge. Key parts of the program are linked into a local business or industry study in a multi-disciplinary approach. Participating students master new skills which are applied in a variety of learning activities that can be used to assess competency standards. The program is designed to complement the Form Four (Year 10) economics syllabus which concentrates on consumer economics. Local teachers define what is to be taught and after an evaluation this year, it is expected the program will become more widespread in 1994.

Programs Involving Teachers And Principals

Management Education for Principals

In association with the New Zealand Employers' Federation, school principals participate in presentations comparing business and school management. Topics include public relations, marketing, negotiation and strategic planning. There are also specialist courses lasting two days as a follow-up to these presentations on Quality Management and Strategic Planning.

Understanding Financial Management

A committee consisting of the Principals' Federation, the Ministry of Education, the Audit Office, the School Trustees Association and business representatives have developed a program to help principals and school trustees. The program aims to define the roles and responsibilities of the chief executive officer and the Trustees of the school in the financial management of school funds.

Resource Allocation and the Environment

Regional seminars are held each year for teachers of economics, geography and science with sessions related to the economy, the environment, relevant legislation and the government's role. Local and national case studies and visits are featured.

Congress 1993 Economics

This is a residential program for economics teachers which deals with manufacturing, the budget and monetary policy. Teachers will visit major economic institutions and be hosted by leading business executives in Wellington.

Learning Resources

The Trust provides industry studies, magazines and sets of OHP slides to help both teachers and business people to understand the New Zealand economy.

Business-Education Links and the National Industry Education Forum

> 'If Australia's schools are to be amongst the world's best by the end of the century, then Australia's teachers face some formidable challenges in this decade.'

This is the view of the National Industry Education Forum (NIEF) which was established in January, 1991. The Forum's members are the nation's major business organisations who are combining their inputs into a business policy on education. The Forum has published two policy documents:

- *Declaration of Goals for Australian Schools*; and
- *Improving Australian Schools – Building the Foundations for a Better Australia*.

Less than a year ago in August, 1992 the Forum published the second of its policy documents, *Improving Australian Schools*. Throughout 1993–94, the NIEF in conjunction with leading educators plans to conduct these five projects:

- National Assessment of Educational Outcomes.
- Devolution of Management.
- Studies of Global Challenges and Economic Life.
- Basic Organisation of Schooling.
- Teachers' Professional Development.

Because of the implications of these projects for teachers and schools in general and economics teachers in particular, the following details are taken from the *Business Council of Australia Bulletin*, January/February, 1993. With the current trend towards a more centralised and national approach to schooling foreshadowed by the present federal government and increased concern about education expressed by business groups, we need to be aware of what is being considered.

Project One — National Assessment of Educational Outcomes

> 'One of the most important gaps in knowledge about our nation's performance is how well our schools are performing. We do not know whether Australian students are as well equipped with knowledge, skills and competencies as those in other countries.'
>
> *Improving Australia's Schools – Building the Foundation for a Better Australia* [Page 5.]

Rationale

If Australian schools are to be at the forefront in achieving the highest standards when compared with the best in the world by the year 2000, the quality of learning that is occurring in our schools must be assessed. In addition, achievement levels for our students must be compared with those of overseas students.

Recently all States and Territories agreed to the development of profiles or frameworks for reporting the results of assessment of student achievement in English, mathematics, science, technology, the arts, studies of society and environment, languages other than English and health. The project will deal with the next step.

The project seeks to explore ways in which profiles can be used to provide a reliable system-level and national data on student achievement.

In addition, it aims to develop an ethical framework or protocol which will govern the way in which data from system-level and national assessment procedures is obtained and used.

Expected Outcomes

It is expected that the following outcomes would be achieved:

- detailed information would be available on the current national work profiles;
- a report would be available on how dependable assessment instruments and procedures could be developed to utilise the profiles and provide reliable, comparable system-level and national data;
- an ethical framework or protocol governing the collection and use of data would be developed;
- the findings of the study would be widely publicised to the business and education community.

Project Two — Devolution of Management

> 'Australia's public school systems, as traditionally structured and managed, are unlikely to achieve the necessary improvements to be at the forefront of world standards.'
>
> *Improving Australia's Schools – Building the Foundation for a Better Australia*, [Page 10].

Rationale

The necessity to survive and remain profitable in competitive markets has forced companies to examine their organisational structures very carefully. This has led to much restructuring and change. One almost universal change has been the devolution of management and authority to local operational units. Decision-making is thus at the point where best-informed judgements can be made. Devolution also provides the flexibility and customer orientation upon which successful businesses depend.

Schools must also be responsive to their customers and deliver a quality product. They must be able to decide how to spend their resources, how to determine their organisational structure, what incentive strategies to use and what services should be purchased. As is the case with decentralised companies, the manager of the school, the school principal, should be given the authority and responsibility to manage and should be accountable for the performance of the school.

This project seeks to establish a blue-print for the devolution of management and authority of systemic schools. It seeks to make recommendations relating to devolution that are consistent with the lessons that business has learnt.

Expected Outcomes

The project would provide:

- a report on the key factors involved in the devolution of management and authority in schools. The report would be advised by best-business practice in devolved management;

- opportunities for senior members of the business community to discuss the report and its findings with education leaders;
- increased understanding and support for devolved management structures.

Project Three — Studies Of Global Challenges And Economic Life

> 'Insufficient attention is paid during formal education to the systematic study of Australia's economic life, the basis of our development and standards of living, and the challenges of our international situation.'
>
> *Improving Australia's Schools – Building the Foundation for a Better Australia*, [Page 12].

Rationale

The business community believes that insufficient attention is given to the systematic study of Australia's economic life, the basis of our development and standard of living, and the challenges of our international situation.

While high standards of functional literacy and numeracy are vital elements of an educated society, cultural and economic literacy are also of great importance.

Our young people need to understand Australia's history and geography and ought to understand the key elements of our democratic society. They must also understand Australia's place in the world, how we make our living and participate in world trade.

Students and teachers need to understand that Australia must compete in global markets if it is to sustain its way of life and maintain its standard of living into the future.

This project aims to prepare a detailed response to the draft national curriculum statement 'Studies of Society and the Environment', and curriculum guides and to provide resource materials.

Expected Outcomes

It is expected that the following outcomes would be achieved:

- a detailed response to the draft nation statement in 'Studies of Society and the Environment' would be prepared;
- areas of the curriculum, for which resources relating to cultural and economic literacy could be prepared, would be identified;
- appropriate resources would be prepared, and made available to schools and teachers.

Project Four — Basic Organisation of Schooling

> 'One area calling for national agreement is the basic organisation of school education. There should be a uniform national policy on the age for starting school, and an agreed number of year levels offered in primary and secondary education. Standard terminology should be adopted throughout the country for similar stages of education and for similar functions and activities.'
>
> *Improving Australia's Schools – Building the Foundation for a Better Australia*, [Page 4].

Rationale

The business community believes that there should be national agreement on matters relating to the basic organisation of school education.

There should be a uniform national policy on the age for starting school, and an agreed number of year levels offered in primary and secondary education.

In addition, standard terminology should be adopted throughout the country for similar stages of education and for similar functions and activities.

While State and Territory Education Ministers have indicated their commitment to proposals for national consistency and have established a high-level working party to investigate and pursue the issue of complementarity, there has been little progress to date.

In this project, the NIEF will aim to work initially with the working party to gain an understanding of the issues involved. It will commission work and studies it feels will advance the issues.

Expected Outcomes

It is expected that the following outcomes will be achieved:

- a comprehensive report on the status and specific nature of the issues to be addressed, e.g. school starting age, number of years in primary/ secondary school, etc;
- agreement on the terminology used to describe similar stages of education and similar functions and activities;
- agreement on the ages at which children start school;
- progress towards establishing a common pattern of primary/secondary schooling in Australia.

It is worthwhile to note the last expected outcome and the six key generic competencies of the Mayer Report which are as follows:

Mayer Report — Six Key Areas Of Competency

1. **Language and Communication:**

   speaking
   listening
   reading
   writing
   accessing and using information

2. **Mathematics:**

   computation
   measurement
   understanding mathematical symbols

3. **Scientific and Technological Understanding:**

   understanding scientific and technological concepts
   understanding the impact of science and technology on society
   scientific and technological skills including computing skills

4. **Cultural Understanding:**

   understanding and knowledge of Australia's historical, geographical and political context
   understanding of major global issues (competing environmental, technological and social priorities)
   understanding of the world of work, its importance and requirements

5. **Problem Solving**

   analysis
   critical thinking
   decision making
   creative thinking
   skill transfer to new contexts

6. **Personal and interpersonal:**

   personal management and planning, including career planning
   negotiating and team skills
   initiative and leadership
   adaptability and change
   self esteem
   ethics

Project Five — Teachers' Professional Development

> 'If Australia's schools are to be amongst the world's best by the end of the century, then Australia's teachers face some formidable challenges in this decade.'
>
> *Improving Australia's Schools – Building the Foundation for a Better Australia*, [Page 8].

Rationale

Success in achieving the standards of education which Australia will require depends upon a high quality, flexible and committed teaching profession operating at the leading edge of professional practice.

Despite this, professional development provided for teachers is sporadic and often ineffective. Teachers, however, maintain their own professional bodies whose activities should be more widely recognised and supported.

This project will provide opportunities for working with teachers on professional activities of joint concern to teachers and to business. It will adopt a selective approach supporting small-scale projects agreed jointly between teachers and business.

Expected Outcomes

- a positive signal by business of the importance of high quality teaching to the nation's future;
- the establishment of working relationships with teachers who are leading the way in improving professional practice;
- improved professional development through a range of activities jointly agreed between teachers and the NIEF.

Business Education Links — *Australia 2010*

The Business Council of Australia (BCA) consists of approximately one hundred key business people whose firms in both the private and public sectors provide jobs for nearly half of Australia's work force. On March 11th, 1993 the BCA convened the Fourth National Business Summit entitled: *Australia 2010: Creating the Future Australia.*

The BCA has made available copies of their 200 page research report for delegates attending today. The report, *Australia 2010*, is the Business Council's blueprint for change and recovery in the Australian economy. This report is intended to stimulate discussion throughout the community and in my view, especially by those of us responsible for teaching economic literacy in our schools, colleges and universities. Let us now spend some time in analysing the report and as educators, tell the BCA what we think of it.

In 1992, the BCA decided that something had to be done to stop the decline in the standard of living of Australians. The Council believes that, as a nation, there is an urgent need to lift our economic performance and to create more jobs. The Council argues on page three of its Report that:

> A century ago Australians enjoyed the highest living standards in the world. In 1970, Australia was 10th in the 'international league table' of countries ranked according to income per capita – we are now 18th in the same table . . . . Australians should accept nothing less than a standard of economic management which will return us to the highest income group of countries over the next two decades (and lead to) the reduction of unemployment and the stabilisation of our net foreign debt.

For teachers of economics, it is essential that we understand the messages of *Australia 2010*. It is a 200 page report which contains four sections and an appendix.

- **Part One** describes Australia's need for change, past approaches to change and features of desirable change strategies. The main arguments are that as part of the international economy, all of our activities either sharpen or dull our global competitiveness and hence our ability to create wealth and jobs. If we fail to create wealth and jobs, then we restrict the abilities of ourselves and our children to lead creative, independent, resourceful and productive lives.

- **Part Two** argues that Australia needs a clear sense of direction for her future if we are to return to the ranks of the top ten nations by 2010. This sense of direction is explained through six national objectives:

  1. To be in the top ten nations of the world according to per capita national income.
  2. To have the lowest possible rate of unemployment, no higher than five per cent.
  3. To contain our net foreign debt to a level below 50 per cent of the nation's GDP.
  4. To achieve strong and sustained private investment that provides high economic and employment growth.
  5. To maintain maximum capacity to defend our territorial integrity.

The report argues that unless the first objective is attained, the remaining five are not achievable.

- **Part Three** presents a scenario of the global environment of which Australia will be a part during the next 20 years. This scenario presents a range of challenges and opportunities for the nation and how we can respond to these.

- **Part Four** establishes four major policy areas which can return Australia as a top ten nation. These four areas are
    1. National Management.
    2. World Competitive Practice.
    3. Savings and Investment.
    4. Internationalisation.

The appendix to the report has been researched by Access Economics. It examines the future of Australia by quantitatively analysing two situations:

1. *Australia 2010* based on our current policies and practices; and
2. *Australia 2010* based on a series of reforms.

The appendix shows the difference between two Australias:

1. An Australia as a poor society characterised by high unemployment, low investment and a sustained high level of international debt; or
2. An Australia, as a richer society with low unemployment, expanded investment, low inflation, a stronger $A and a net foreign debt stabilised at lower levels than those prevailing today.

The Business Council argues that Australians need to agree on the kind of nation they want and how to achieve these objectives. The Council believes, that as a nation, we all want to enjoy high wages, strong employment opportunities and economic and social dynamism. Would you, as a teacher of economics agree with these for yourself and your family and for your students?

In opening the Fourth National Business Summit, Mr John Ralph, President of the Business Council, in presenting the BCA's vision for economic growth, stated:

> 'The purpose of economic growth in a liberal democratic society is to give individuals the opportunity for higher levels of personal consumption, in ways that they choose for themselves. The affluent Australia that is our vision of Australia in 2010 would be the logical development of an Australia in which we all value:
>
> - a nation internationally recognised as offering to its citizens, enviable standards of living;
> - comfortable and spacious cities, good recreational and cultural facilities;
> - an appropriate balance between work and leisure; and
> - appropriate support for the disadvantaged'.

As a teacher of economic literacy do you agree with John Ralph's views –

wholly, in part or not at all? How does your vision of Australia 2010 compare with the above? In your teaching, how do you present your vision to your students of Australia in the future and what is the vision your students have? What interactive teaching strategies do you use to stimulate student visions of their futures?

Australia 2010 — Implications For Education And Training

Australia 2010 discusses education and training on pages 85–89 and on pages AE 29 and 30. The Report quotes the Managing Director of BP Australia Ltd as follows:

> 'Education has a fundamental impact upon the material and intellectual health of society . . .
>
> 'Education is the most pervasive agent of change . . .
>
> 'Education is the principal means by which we conserve and enrich the diversity of human culture . . .
>
> 'Education is the engine providing the skills which advanced industrial societies such as ours require.'

The report (page 88) argues for a national approach to education. Some newspaper reports appearing recently in the popular press are relevant. As teachers of economics, we must be interested in whether there is a role for our discipline in 'a standardised Australia – wide curriculum and assessment system likely to be operating in primary and secondary schools within two years'. (*Sunday Mail* 27 June, 1993)

The newspaper report continues with 'the national system will include a common assessment system and all students will be assessed by the same standards nationally. Standard textbooks are also part of the plan. The curriculum will be based around eight major core subjects:

- English
- Mathematics
- Science
- Languages other than English
- The Arts
- Technology
- Health and Physical Education
- Studies of Society and the Environment'

What Do We Do About Business-Education Links?

This paper was prepared to promote discussion about business-education links and some consequent implications for economics education. A great deal has happened since the teacher subject association, of which you are a member, was established.

When our teacher subject associations were established by groups of dedicated, voluntary classroom teachers and university lecturers, we were largely in control of what and how we taught economics. Student retention rates into Years 11 and 12 were less than one third and about one in five of our Year 12 (Form 6) students entered university. Our courses of study were centrally determined and influenced largely by the demands of undergraduate university courses. However, our young teacher subject associations, especially in commerce and economics, knew how to make their voices heard effectively when it mattered. We knew the decision – makers and we knew how to 'manage committees'.

Today, we face new challenges. Business-education links is one such challenge. For the career teacher, it seems as if everyone is telling us the what, the when, the how and the why of teaching! We are continually faced with increasing demands from all sectors of society to tell us what we should and should not be teaching. I don't know about you but I am beginning to get sick of the continual interference and strongly argue that it's time we did something about it!

One solution lies in teachers taking a far more pro-active role in advancing their discipline. It could be argued that teacher unions never really understood that professional teaching is more than salaries and class sizes. The solution lies in all of us strengthening our teacher subject associations at state and national levels and linking with fellow teachers overseas. We also need to respond positively to requests from governments, business and education groups to become more involved in committees and enquiries. We need to be able to stand up to educational bureaucrats, business people, union officials, politicians and society's 'bleeding hearts' and assertively state, 'Hands off!'

As someone involved in business-education links for more than thirty years, I support the concept and the interest shown by genuine and concerned people who are not professionally trained educators. In our democracy, I respect freedom of speech and the right of all people to express their opinions peacefully. Once these opinions and views have been expressed, then as a professional educator it becomes my responsibility and my duty to be accountable to my students and their parents and to society at large, but on my terms!

In the recent past, many of us have been distracted by other issues, some of which are not relevant to our role as teachers of economic literacy. We have made mistakes. We have not been aware of the changes occurring beyond our classrooms and lecture theatres. *Australia 2010* and similar reports offer opportunities for professional partnerships.

Conclusion

Business-education links have and will continue to provide opportunities for dialogue and exchange between business people and educators. Business- education links are also education-business links! If the Business Council of Australia and other business groups are concerned about the future of all Australians, then we need to be involved. As teachers of economics education we need to be involved **before** the event, not after!

If the Business Council of Australia genuinely supports the statements quoted previously (Report, page 88) and agrees with BHP's General Manager, Mr John Prescott, that 'education is the source of our intellectual infrastructure', then why weren't experienced, practising teachers involved in *Australia 2010* and similar reports? Aren't we all members of the same team?

Economics education is more than raising per capita income and reducing unemployment and restricting net foreign debt. Economic literacy is also about team work and co-operation and listening to and respecting the views of others. It is also about learning and sharing and trying out ideas and being involved and 'having a go'. If *Australia 2010* is to become a reality, then would the leaders of the world of business please understand that we want to be involved.

As experienced, practising classroom teachers and educational administrators we are, as NIEF Project 3 indicates, responsible for 'the systematic study of Australia's economic life'. As teachers of economics we are also concerned about Australia's future. All we ask is that we be consulted because we are already preparing young people to be the wealth creators and business leaders of Australia in the year 2010!

References

Business Council of Australia (1993), *Australia 2010*, Business Council of Australia, Melbourne.

National Industry Education Forum (1992), *Improving Australia's Schools: Building the Foundation for a Better Australia*, NIEF, Canberra.

National Industry Education Forum (1991), *Declaration of Goals for Australia's Schools*, NIEF, Canberra.

Appendix

Table 7.1 **Business-education links involving economics teachers' survey responses completed at Economics '93 Conference, July 2**

Sources of Guest Speakers

- Member banks of the Australian Bankers' Association with best responses from the Commonwealth and Metway Banks.
- The Australian Stock Exchange in capital cities and some member firms.
- Federal government departments and institutions especially Industrial Relations and the Reserve Bank of Australia.
- State government departments including Consumer Affairs and Small Business Corporations.
- Individual companies based on individual teacher contact rather than industry-trade-employer associations.
- Individual business managers from local firms.
- Representatives of individual trade unions rather than the ACTU or state Trades and Labour Councils.
- University academics and lecturers with specific expertise and research experience in economics curriculum topics.
- Private consultants with economics research groups.
- Parents and grandparents of students with practical expertise.
- Fellow staff members where knowledge and skills are used in team teaching.
- Student organised guest speakers including retired members of the local community.
- State and federal Members of Parliament and Local Councillors.

Other Programs Involving Business Links

- Student competitions organised by business groups including the Share Market Game and the Mobil Managing the Australian Economy Game.
- Teacher release to business firms — private enterprise only, with no examples of release to government departments.

- Economics open days at schools with student arranged programs of visiting speakers.
- Teacher-industry links with individual businesses, either arranged by teachers at the local level, or by liaising with a business group such as the Institute of Public Affairs Queensland.
- Teacher-university links whereby an interchange occurs at the individual school-university level, or via a group of schools in a region working with their nearest university.
- Teacher-student visits to local firms and full day visits by country schools to capital cities to cover several places related to current semester units in economics.
- Teacher visits to business to update teacher knowledge in specific areas such as technology (e.g. 3 week Norco program), industrial relations, international trade and management skills.
- Annual teacher visits to a business arranged by the subject teacher association including those organised by the VCTA during the Comview Conference in Melbourne.
- Residential courses such as the 'Mining in Society' seminars.
- 'Mock' job interviews with business people acting as interviewing officers and then discussing current work place practices to classes.
- Young Achievement Australia programs.
- Joint teaching programs with commerce/small business subjects to share outside expertise and resources.
- Inter-disciplinary team teaching within schools and involving neighbouring schools.
- Student organised and operated small business enterprises for a term in association with local firms.
- Teacher in-service-professional development courses whereby business people conduct programs for all teaching staff.
- Business people invited to act as curriculum advisers and school mangement plan reactors.
- Excursions and extended school trips during school vacations with specific educational objectives related to economics courses of study.
- Visits by employers related to career education and relevant economics course content.

8

INTERACTIVE TEACHING STRATEGIES AND LEARNING EXPERIENCES

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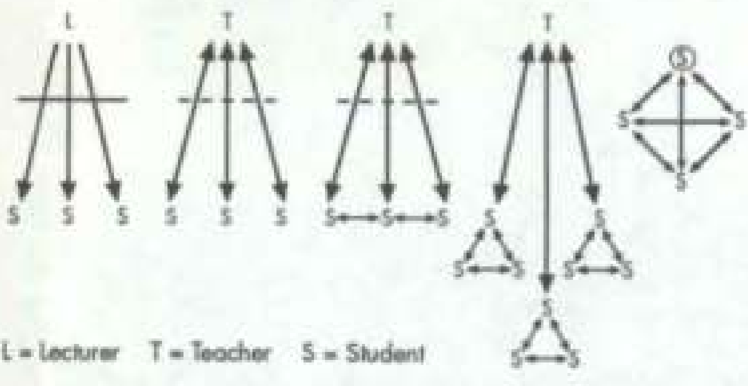
INTERACTIVE TEACHING STRATEGIES AND LEARNING EXPERIENCES

LYLE KIRKWOOD

An interactive strategy is one that involves action taking place between two or more people. Both must be active in the teaching/learning process. Thus, we wouldn't normally think of a lecture as being interactive. With a lecture, one party is usually quite passive. Even when we begin to break down the barriers, and allow questions (as in a normal school room), the interaction is important, but still quite minimal. Consider the diagrams in **Figure 8.1**.

Figure 8.1: **A diagrammatic representation of some teaching strategies**



L = Lecturer T = Teacher S = Student

Figure 8.1 indicates that there are degrees of interaction ranging from lectures, with little or no real interaction, to teaching involving questions (which may be either teacher-initiated or student-initiated), to whole-class discussion and other activities, to small group and seminar work. It also indicates that the interaction involved can take place between different people: teacher and student, student and student, and, of course, student and others in the wider environment, if we extended the diagrams a little further. It should also be evident that interaction may take different forms, and involve different senses. Sometimes, the interaction may be physical, with the parties involved moving, touching, feeling. At other times it may only involve hearing, seeing, and reacting or responding in some way.

Advantages of Interactive Strategies

Our theme for this conference is 'competitive advantage', and that's why interactive strategies are important. They provide advantages to both student and teacher, when compared with other methods.

- They suit all learning styles, but give the teacher a particular opportunity to cater to the needs of kinaesthetic learners. This is a group of learners so often missed by our normal teaching strategies. We generally cater well to the audio and visual learners in our classes, but forget the kinaesthetic ones. They need the combination of physical and mental action that many of these strategies provide.
- They help us to achieve a wide range of objectives. They help us to achieve process, skill and affective objectives, in addition to the content objectives to which we still tend to give our attention. In particular, they can help us to develop language, communication, and other social skills. Many of the interactions involve talking, listening and co-operating socially with each other to answer questions or solve problems. They may help to overcome problems of communication between different races, sexes and ethnic groupings.
- Most students enjoy learning or consolidating knowledge by taking part in such activities. They enjoy the variety. They enjoy the non-threatening environment. They enjoy the interaction. They enjoy being more involved in their own learning. They are then more likely to be co-operative in other aspects of learning, and generally cause fewer discipline problems.

Problems of Interactive Strategies

Naturally, such strategies are not without their problems. Critics suggest:

- They take time. Some would say they waste time. They do take time to prepare, and they do take more time in the classroom than covering the same topic using only lecture or chalk-and-talk methods alone. But if they achieve more, isn't this worth-while?
- They don't prepare students for examinations. Perhaps I would agree that they don't prepare students for old-fashioned, content-oriented external examinations. However, I would argue that they actually prepare students better than most other methods for process-oriented examinations, as well as for most other modern styles of assessment, such as assignments and oral evaluation. Through talking, listening and interacting they seem to understand the work better, rather than simply memorising it.
- Many interactive strategies require changes in the physical arrange-

ment of the classroom, to allow for various groupings. This requires flexible furniture, and the ability to form tight groups around work tables.

- Some students will dominate discussion and other activities. This will be so, unless we ensure group sizes are relatively small, and all learn to take turns to talk and to listen to others.
- They require more resources. Yes, in some cases they do – books or other commercially-produced material, or teacher-produced material. But, where resources are required, most are relatively cheap and/or relatively easily produced. As we will see, it is often these simple resources which allow the interaction and the achievement of a wide range of objectives and the ability to cater for a wide range of learning styles.

Examples of Interactive Strategies

Find your other half

This activity can be used as an introductory warm up activity, to help people in a group get to know each other, or as a concluding activity to check understanding (see **Appendix**, pages 112-117).

Steps

1. The teacher should prepare cards or pieces of paper containing half of a matching pair, such as a question and answer, a concept and its meaning, or a problem and its solution so that each student will have one card.
2. Give each student one card to carry or to pin on their front.
3. Have students mill around the room, talking to others one at a time, until they find 'their other half'.
4. When they find their match, they could sit down, move to the front, or to the sides, whatever is appropriate for your room.
5. Pairs of students should read out their cards and discuss the information on them.

Note: If you have a larger number of people in the group, it may be wise to have questions and answers on different coloured cards.

Jigsaw grouping

This activity will allow students to work in groups to research, and communicate, through peer teaching, the findings of their research to other members of their class.

Steps:

1. With assistance from their teacher, the class should decide on a topic which they would like to learn about by research, rather than from a text, or by normal teaching. Divide this topic up into sub-topics or questions to investigate. Try to make these of approximately equal size and difficulty.
2. Break the class into groups with the same number of students as there are sub-topics.
3. Within their groups, students should be allocated sub-topics that they wish to research, one to each person.
4. Students should re-group with all the other people in the class who have been allocated the same sub-topic to investigate.
5. Working with this new group, students should carry out the required research and study to learn about their sub-topic. They should work together to share the work, to discuss it, to help each other understand it as fully as possible. The teacher should indicate how long they have to carry out their data-gathering and evaluation.
6. As a group, students should work out the best way to present their new-found knowledge to their original group. They might like to prepare an aid, such as a handout or a chart to assist them.
7. Now that they are 'an expert' in a particular part of the total topic, they should return to their original group to present/teach their findings to others in the group. And, of course, to learn about the rest of the topic from the others. In this way, all the parts of the jigsaw are put together to form the whole picture.
8. Finally, the teacher should conduct a whole-class session to discuss the topic, and the approach, to recap on the main points, to summarise, and to clarify any problem areas.

Sometimes, jigsaw grouping is known as cross grouping or expert grouping.

Hypothesising

One important tool, used by all social scientists, and which should perhaps be used more by economists, is hypothesising.

An hypothesis is a statement of what is assumed to be true: a tentative explanation. It is usually expressed as a statement, or sometimes as a question or an if-then proposition. This statement should be tested to see if it can be verified. Once confirmed by data and evidence gathered, it becomes a conclusion, and perhaps a generalisation, which can be used in future decision-making and problem-solving.

Some examples:

As a statement:

- Demand for pay TV will increase with income.
- The main causes of inflation are wage increases and government spending.
- Firms in the same industry usually locate in the same area.
- As population density increases, pollution problems will increase.

As a question:

- Why do factory workers usually specialise in one task?

As an if-then proposition:

- If a good is scarce, then its price will be high.

Steps:

1. Topic
   Set down the topic being investigated.
2. Objectives
   Set out objectives for studying the topic.
3. Hypothesis
   Establish and refine the hypothesis as a statement or question.
4. Data
   Gather and evaluate data relevant to the hypothesis.
5. Testing
   Establish appropriate evidence and sources of it to test the validity of the hypothesis, and apply these.
6. Conclusion
   Confirm or reject the hypothesis. If confirmed, establish generalisations and conclusions. If rejected, can it be modified, or is a new hypothesis and further investigation needed?

   Sometimes, it may also be necessary to add:
7. Presentation

   Determine the best way to present the outcomes of the data gathering, testing and conclusions.

Making a Photographic Collage or Chart

We should also give our students the chance to be creative. Students should work in groups to attempt to capture in photographs or cut-outs from magazines the essence of what they believe to be the main concepts from a topic studied, or the main economic activities in the local area.

These photographs or cut-out pictures should be used to make a collage or chart, with appropriate headings and captions.

Students should compare their efforts with those of other groups. They should discuss similarities and differences.

The collages or charts should be placed on notice-boards in your room, in other areas of the school, or at the local shopping centre.

(An alternative to photographs or pictures may be a short video relevant to the topic. In this case, careful scripting of visuals and what is said to accompany the visuals will be necessary. Perhaps the school film and television or drama teacher might assist, if students choose this option.)

Team Bingo and Other Games

Many games are interactive in nature. I have explained in other papers how it is possible to increase the size of games, such as crosswords or seek and find, or other similar games, so that the whole class can be involved.

Many other games, such as dominoes, concentration and bingo are also interactive in nature. Team bingo is a particularly good example of such a game.

Team bingo is a revision activity, which students can create themselves, in groups.

Steps:

1. Each student will need a grid on a piece of paper or card to look like this:

and eight small pieces of paper or card like this:

2. As a class, brainstorm a list of approximately 30 – 32 key words or phrases, which represent the main concepts, ideas, people or examples discussed in the topic just covered.
3. Break the class into groups of four or five. Within the group, each person, in turn should choose one of these words, that they feel they know the meaning or definition of, and explain it to the group. The group then discusses and agrees upon a meaning or definition. The word and its meaning should then be written on one of the small cards.

   Each person should then decide if they want to put that particular word anywhere at random on their larger bingo card. They will need to select 16 of the words to fill all the spaces on their card.

   The group should keep defining words, completing the small cards, and putting the words randomly in their bingo grid, until everyone has filled their grid.
4. The teacher should collect all the small cards the students have prepared, and select the 30 or so cards needed to call the bingo game (one for each word or phrase).
5. These cards should then be shuffled into random order, and numbered 1 to 30. The teacher should then 'call' each of the meanings or definitions, along with its number, one at a time to the class, about one every 30 seconds.
6. If students know the answer, and have the appropriate word or phrase on their bingo card, they should cross it out, and write its number near it, so the teacher can tell if the student crossed out the correct answer.

   'Bingo' is a line – horizontally, vertically, or diagonally – or, if you want a longer game, play for 'a full house'.

Who or What Am I?

This is an activity which will aid students' questioning and deduction skills, will help to consolidate knowledge, and will help them to think in terms of concept categories and groupings (see **Appendix**, pages 118-123).

Steps:

1. Prepare a series of cards or labels, which can be attached to each person's back (with a pin), so the person cannot tell who or what they are. Each card should contain a word or a name relevant to the topic being covered. The cards could be prepared by the teacher before the lesson, or they could be prepared by a couple of students as the teacher conducts a brainstorm session on the topic.
2. Students, with the cards on their backs, should then mill around the

room, asking questions of other students to discover their identity. Basically, they work as a pair. They show each other what is on their back, then ask questions. Questions can only be answered 'yes' or 'no'. I have found it best to allow them to continue to ask the same person questions as long as they get a 'yes' answer. If they get a 'no', they must move on to another person. Of course, they should answer questions for the other person before they move on. They will soon learn that they can't say 'What kind of thing am I?' They learn to talk in terms of concepts and categories. They soon begin to ask questions such as 'Am I a concept?' or 'Am I a person?'; 'Am I associated with . . . ?'; 'Am I an advantage of . . . ?', to get closer and closer to their identity.

3. Once they discover their identity, they should pin their card on their front, but continue milling, answering others' questions. Towards the end, when there are only a few who have not discovered their identity, allow students to give hints to assist others to discover who or what they are.

4. Finally, have a general discussion about the topic to clarify any misunderstandings of the terms used, and to work out what were the best types of questions to ask, so they will be better prepared for the next time they do a similar activity.

As a variation, this activity could be done as in that 'famous' television show 'Hey! Hey! It's Saturday Night', where three people are selected to sit out the front. Their identities are attached to their heads, so they can't see them. They ask questions of the class/audience, who answer 'yes' or 'no', until one discovers their identity, and is declared the winner.

Other Strategies

There are, of course, many other interactive strategies – role-plays, simulations, research/inquiry activities such as surveys, brainstorming, and various forms of group discussion. If you would like to learn more about such strategies, I would particularly recommend to you the excellent book by Mary Mannison, another lecturer at QUT, called *Interactive Teaching Strategies*. She has collected together many interactive teaching strategies, and examples of their use in a wide range of subjects and grade levels. She and I offer them as strategies which may be used, sometimes to supersede lecture style or 'chalk and talk' presentations, and sometimes to complement these more traditional teaching strategies.

References

Mannison, M. (1993), *Interactive Teaching Strategies*, Nice Business, Brisbane.

Chapter 8 Appendix

FIND YOUR OTHER HALF

1 Economics is considered to be a social science because	2 it deals with human problems in a scientific way.
1 Scarcity means that	2 there is not enough of a commodity to satisfy all wants.
1 The economic problem is caused by the fact that	2 resources are limited and wants are unlimited.
1 One of the main advantages of a private enterprise or market economy is that	2 innovation and risk-taking are encouraged by the profit motive and personal incentive.
1 A term which refers to the government in an economy is	2 the public sector.

1 Making the best use of available resources	2 Economising.
1 Human-made instruments of production	2 Capital.
1 An economy where the government intervenes very little in the running of the system	2 *Laissez-faire* economy.
1 Alternative opportunities foregone when a choice is made	2 Opportunity or economic cost.
1 One of the main features of a market economy in terms of its decision-making, is the importance of	2 the price mechanism.

1	2
John Maynard Keynes described Economics as	an apparatus of the mind, a way of thinking.
Sure God created Man before Woman	but then you always make a rough draft before the final masterpiece.
A woman is like a tea-bag	You can't tell how strong she is until you put her in hot water.
A short cut is	the longest distance between two points.
Man's mind, once stretched by a new idea	never regains its original dimensions. OLIVER WENDELL HOLMES

1 More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness	2 the other to total extinction. Let us pray we have the wisdom to choose correctly. WOODY ALLEN
1 The reason some people don't recognise opportunity is	2 because it usually comes disguised as hard work.
1 For one person who dreams of making fifty thousand pounds,	2 a hundred people dream of being left fifty thousand pounds.
1 You can't step into	2 the same river twice. HERACLITUS
1 It is only when they go wrong,	2 that machines remind you how powerful they are. CLIVE JAMES

1

At the end of the game

2

the king and the pawn go into the same bag.

PROVERB

1

You're either part of the solution

2

or part of the problem.

ELDRIDGE CLEAVER

1

The world has enough for everyone's need

2

but not enough for everyone's greed.

MAHATMA GANDHI

1

We must believe in luck,

2

for how else can we explain the success of those we don't like.

JEAN COCTEAU

1

The art of taxation consists in so plucking the goose

2

as to obtain the largest amount of feathers with the least possible amount of hissing.

JEAN BAPTISTE COLBERT

1 Recession is when a neighbour loses his job	2 depression is when you lose yours. RONALD REAGAN
1 The free market: the irresistible cocktail	2 of desire and commonsense. JOHN HEWSON
1 Nature to be commanded	2 must be obeyed. FRANCIS BACON
1 Man must choose whether to be rich in things	2 or in the freedom to use them. IVAN ILLICH
1 Due to the current economic climate	2 the light at the end of the tunnel will be switched off until further notice.

WHO OR WHAT AM I?

Barter	Store of Value
Medium of Exchange	Consumer Price Index
Inflation	Cost-push Inflation
Demand-Pull Inflation	Reserve Bank
PA R	Difficult to Counterfeit
Standard of Deferred Payments	Legal Tender
Notes & Coins	Token Money

Easily Divisible	Portable
Homogeneous	Durable
Price Index	Implicit Price Deflator
Central Bank	Treasury Notes
Short-Term Money Market	Creation of Credit
Foreign Exchange	Stock Exchange
Finance Company	Insurance Company

Superannuation Fund	Building Society
Credit Union	Non-Callable Deposits
Capital Adequacy	Prudential Supervision
Mint	Shells
Capital Market	Financial Sector
Non-bank Financial Intermediary	Control of Note Issue
Price	Cost

Foreign Sector	Household Sector
Financial Sector	Capital Market
Government Sector	Business Sector
Labour Market	Taxes
Social Services	Income Tax
Consumer Spending	Company Tax
Earnings	Wages & Salaries

Interest	Rent
Profit	Savings
Borrowings	Subsidies
Sales Tax	Gross Domestic Product
Incomes Method	Expenditure Method
Production Method	Intermediate Goods
Double Counting	National Income

Gross National Expenditure	Exports
National Turnover	Imports
Indirect Taxes	Depreciation
Consumption Goods	Investment
Consumer	Leakage
GDP at Constant Prices	Multiplier
Aggregate Demand	Accelerator

9

LABOUR MARKET REFORM: PROGRESS ON ACCORD MARK VII AND ENTERPRISE BARGAINING

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LABOUR MARKET REFORM: PROGRESS ON ACCORD MARK VII AND ENTERPRISE BARGAINING

PROFESSOR ROD TREYVAUD

The Impetus for Enterprise Agreements

There is general agreement that the rapid increase in competitive forces faced by Australian companies necessitates a fundamental overhaul of the way most Australian companies operate if they want to maintain and increase living standards. Industrial relations at the workplace, covering work practices and organisation, management practices and the use and development of skills and training is one area which must be improved if Australian companies are to achieve the best world standards of operation.

The emphasis on the enterprise rather than the industry is a reflection of a growing recognition among Australian businesses that enterprises acting independently are thought to have more chance of succeeding in an increasingly more competitive international economic environment. The individual workplace has assumed the centre of attention since success in the international environment will depend largely on how work is performed and organised at the workplace. It had become clear by 1990 that while substantial progress had been made in restructuring awards, there had not been enough progress at the workplace level itself. The government recognised that only at the workplace level could productivity gains from the ability to use labour more flexibly be realised. This recognition became the catalyst for enterprise agreements.

The Nature of Enterprise Agreements

Enterprise bargaining refers to direct bargaining over conditions of employment between management and employees, or their representative at the workplace. The outcome of this bargaining is an agreement dealing comprehensively with all aspects of wages and other conditions for employees at that workplace.

Bargaining at the workplace is not a new concept. Since 1945, direct negotiation between management and the unions in the area of over-award payments was common. This is often referred to as wage bargaining. Productivity bargaining incorporates work practices as well as wages. Full bargaining embraces wider issues, including the introduction of technology, investment decisions and producing a competitive environment.[1] The Business Council of Australia (BCA) in their 1987 Survey showed that there were 496 single employer awards in existence. However, such awards were concerned basically only with wage bargaining and were not, with some notable exceptions, comprehensive in nature. It is generally accepted by all parties that any bargaining directly aimed at wages and designed around cost cutting would not meet Australia's needs.[2]

It was agreed that it must cover wider outcomes if workplace reform was to be achieved. All parties recognise that:

If Australian business is to compete internationally, relationships among workers and employers at the workplace will need to be transformed from that of conflict to that of co-operation – this will not be an easy task, given Australia's long history of confrontation at the workplace. However, the impetus given in recent award restructuring arrangements dealing with changes in work organisation, multi-skilling, the creation of career paths, closer employee-employer consultation and other improved communications channels is seen to be an encouraging movement in the direction of transforming workplace relationships.

A logical outcome of the enterprise bargaining process would be enterprise-based agreements. With an enterprise-based focus, the parties have a better chance of setting terms and conditions best suited to their particular circumstances. Employers and employees have the opportunity of developing work relationships that are built on co-operation and consultation rather than cqnfrontation.

The Models of Enterprise Bargaining

It is possible to identify at least four different approaches or models for enterprise bargaining. The centralised model has largely been discounted by all parties. Under this model the Industrial Relations Commission (IRC) determined the outcome of a dispute between the peak union body and peak employer groups. There is a general consensus amongst all parties that a decentralised system is more desirable on the following grounds:

- The parties involved in the negotiations are themselves forced to make the decision which will affect them and because they have to live with the consequences of their own efforts, they are more likely to seek to reach an acceptable decision for all parties.
- Wage determination at the workplace level can more accurately reflect the capacity of industry to pay and can allow for individual differences between firms in an industry.
- The people making the decision are closer to the workplace where most industrial issues arise and should be in the best position to find solutions that are more likely to be acceptable to both parties.
- The time and expense involved in pursuing a co-ordinated and centralised union submissions are often not justified by the length of time the Commission takes to make a decision, especially when the final decision might not be favourable.

- Disputes over wages or other working conditions should be resolved where they occur, as quickly as possible by the people directly involved.

Even with the general acceptance of the decentralised system, there are three additional decentralised models that can be isolated. These are designated as the Pure Deregulated Model supported by the Liberal and National Parties (LNP), the Business Council of Australia (BCA) and the Confederation of Australian Industry (CAI). The second model is managed decentralisation which is reflected in the policies of the ALP and the Accord. The third model is often referred to as the co-ordinated regulation model which is supported by women's groups, welfare organisations and some industrial groups including the Metal Trades Industry Association.[3]

Pure Deregulated Model

A decentralised labour market is regarded as merely another step towards a deregulated economy in which market forces are allowed to determine resource allocation and resulting prices. This approach argues that competition in freely operating markets will result in maximum social and economic welfare.

In the industrial context, this means that there is a greater desire by management to achieve freedom of pay and other employment conditions in line with the needs of business rather than in accordance with the dictates of external institutions such as the IRC. This implies not just a focus on enterprise bargaining but a decentralisation of these activities to the local business unit level, such as a shop or factory.

In a decentralised environment, the primary criterion for pay increases becomes performance and ability to bargain. The decentralised focus provides the means of developing organisation-specific employment systems by which job tasks and work responsibilities reflect the internal requirements of the firm. As a result, the labour force participants are provided with a greater freedom to set their own contractual terms and determine their own rules of behaviour.

This approach has been adopted by the Business Council of Australia, who argue that work places should stimulate closer relationships between employees and employers, be self-regulating and not be inhibited by multiple unionism and multiple award coverages which restrict the development of new skill bases and work organisations needed to achieve productivity improvements. They argue that as investment decisions are now made on a global basis, individual enterprises must be able to demonstrate a level of productivity and productivity gains at least equal to their international competitors, if they are to attract such investment.

In light of this philosophy, the BCA believes that there are four necessary conditions to enterprise bargaining if the competitiveness of the Australian economy or enterprises within that economy are to be enhanced.[4] These are:

- enterprise agreements should be clearly an alternative to the award system, not simply a second tier of negotiations in addition to existing awards;
- agreements would be between individual enterprises and their employees and unions and cover the entire working relationship to the extent that they agree it should be prescribed;
- employees would be empowered to work to the maximum of their capacity, skill and productivity;
- wage rates and wage increases and other conditions of employment, rather than mechanically meeting the requirements of external rules or policies, should be determined at the enterprise level on the basis of negotiations in which a wide variety of factors may be considered including the performance of the company and its employees, price increases, local labour market pressures, the company's employee relations strategy, internal pay relativities, work content, and skill.

The BCA, while accepting the multiple model, does not propose a direct relationship between wage increases and productivity increases. They argue:

> 'it would be inequitable as well as economically unproductive for all the financial benefits of more productive working arrangements to flow automatically to employees involved in work place change'.[5]

The basis of this assertion is that:

- productivity improvement not only results from increased labour productivity but also from capital and management innovation;
- employees in enterprises operating at high levels of production would only gain marginally;
- if the benefits are passed directly to employers, there would be no improvement in competitiveness;
- enterprise bargaining could be viewed simply as a system for gaining wage increases.

While the BCA recognises the role of the unions in this process, it is argued that enterprise bargaining cannot take place where there are multi-industry or multi-employer awards, as the focus of the employees will be on the craft or industry, rather than on the enterprise. As a result, the enterprise will be unable to reach agreements which take into account changing customer needs or changes needed in the work methods employed by the enterprise.

Also there will not be a comprehensive code of employment conditions and remuneration for the enterprise and unstable work conditions will result. At the crux of this issue is a desire to negotiate directly with employees of the enterprise rather than unions who may represent wider industry groups containing enterprises that are in direct competition with each other and who have differing needs. This philosophy underlies the commitment in *Fightback!* to end compulsory unionism and to promote the commitment of enterprise unions. The NSW and Victorian Governments have introduced legislation that will facilitate the use of enterprise bargaining in a union free setting.

Managed Decentralisation – The Accord Model

This group believes that the current system has an important role in the maintenance of minimum standards for wages and conditions of employment. This approach is adopted by some of the union movement and by the federal ALP government.

The movement towards a more decentralised system is not seen as incompatible with the Accord arrangements. The government believes that the current institutional and co-operative framework, including the Accord, the IRC, trade unions and employer groups, is an essential mechanism for achieving widespread and lasting reform. The government maintains that significant changes have been made in the way these bodies have operated and inter-related in recent years, and this has markedly enhanced their ability to influence and facilitate the reform process.

The fundamental elements of the government's approach since 1983 have been:

- a flexible industrial relations system that enhances efficiency and equity at the workplace and assists in national macroeconomic management;
- the recognition of the legitimacy of democratic organisations of employers and employees able to represent the interests of their members;
- a role for independent industrial tribunals to prevent and settle industrial disputes and to provide social protection through the safety net provided by minimum award wages and conditions;
- consultation and co-operation between workers, their union, the management/employers to ensure that workplace reform is implemented on a sustainable and equitable basis;
- a legitimate role for government in the reform process through supportive programs to promote desired outcomes at the national, industry, and workplace levels.

In general the ACTU and the ALP, through the Accord, accept the need for a more flexible approach to industrial relations generated through enterprise bargaining. However, they do not believe that enterprise bargaining necessarily precludes the maintenance of an award system operating as a safety net. This safety net establishes minimum standards of pay and conditions for workers in the lower paid and industrially weak section of the labour market.

Such a philosophy was contained in the Accord agreement 1993–1996, the Accord Mark VII.[6]

Despite the lack of involvement by key employer groups in the Accord Mark VII process, the shift to enterprise bargaining contained in the Accord is a move in the direction advocated by employers, in particular by the BCA. The BCA made its position clear in a report released in 1989: *Enterprise Based Bargaining Units: A Better Way of Working*, which argued for the need to remove external regulation of business by bodies such as the Australian Industrial Relations Commission.

The Accord states its primary purpose as addressing unemployment and lists nine key objectives including:

> 'to continue the devolution of wage fixation by encouraging bargaining at industry and workplace levels involving employees and their unions.'

Table 9.1: **The process envisaged in Accord Mark VII**

Step One

Unions and employers to negotiate enterprise agreements. May involve framework agreements at industry level.

The enterprise is defined by employer and not just by location. The agreement can cover both situations.

Step Two

Parties unable to agree may refer the matter to an Industrial Tribunal which would be asked to order the parties to negotiate an enterprise agreement in good faith.

A reasonable period should be afforded to enable the parties to negotiate.

Step Three

If the parties cannot agree on the matter, it may be referred back to the Industrial Tribunal which may conciliate on the matter to establish an enterprise agreement.

Step Four

If agreement cannot be reached, the Industrial Tribunal may arbitrate. The arbitration shall be limited to $8.00, subject to the overriding conditions of the Accord and shall be confined in the first instance to the enterprise.

Step Five

The union/employers may after a reasonable period, seek to vary the award by increasing the award rates. This claim shall be limited to $8.00 subject to the overriding conditions of the Accord.

Source: ACTU (1993), *Putting Jobs First*, Accord Agreement, 1993–1996.

The Accord Mark VII, like those before it, emphasises the need to increase productivity stating as an objective:

> 'to increase living standards over time through increases in real wages associated with improving productivity and implementing flexibility at industry and workplace levels consistent with the objective of low inflation.'

One of the most difficult parts of the Accord process since 1987, and one of variable quality, has been the measurement of productivity. Productivity has tended to be measured by cost cutting, particularly by cuts to the labour force. Attempts to come to grips with measuring productivity in the service industry – where many of our growing exporters are located – have been slow and haphazard.

And while the Accord Mark VII (in conjunction with the amended Industrial Relations Act) allows for greater flexibility in industrial regulation, it does not go as far as some (including the BCA) would like because it still maintains a role for the centralised system. Two of the Accord's objectives in particular focus on the role of the centralised system:

- 'to ensure that all workers are protected by a safety net of minimum award wages and conditions and have access to arbitration'; and
- 'to provide access to arbitrated safety net award adjustments'.

The arbitrated safety net was included in the Accord as a protection for workers where enterprise agreements cannot be reached. This arbitrated safety net was designed 'primarily for lower paid workers' who have not been able to reach productivity based agreements with their employer.

It is this safety net that forms the basis of the $8.00 a week pay claim now being sought by many unions in NSW, with the support of the NSW Labour Council. The ACTU is not supporting the claim in the Commission at this stage, as the Accord agreement linked this payment to employment growth, and as you would all be aware, significant employment growth has not yet occurred.

It has been the relatively slow process involved in reaching enterprise agreements that has led to this pay claim. **Table 9.1** shows the steps envisaged by the ACTU in implementing the Accord Mark VII. Most enterprises are still at step one. However, some progress towards enterprise level agreements had been made even prior to the latest Accord, with enterprise agreements reached at over 700 workplaces, and covering more than 30% of workers under federal awards.

The Accord also continues to include social policy initiatives as basic objectives:

- 'to continue the process of increasing equity in pay and conditions of employment for women workers'; and

- 'to give further consideration to measures designed to assist workers with family responsibilities'.

The first of these is particularly interesting when considered in relation to the push to enterprise bargaining. Enterprise bargaining is not new to Australia. Agreements for over award payments between unions and employers were often struck at the enterprise level, and it is interesting that one of the greatest areas of wage differential between men and women has been in the area of over award payments. Historically, in Australia and overseas, women have not fared well under enterprise bargaining arrangements.[7]

In addition, they support the role of the Australian Industrial Relations Commission to facilitate workplace agreements between parties and to certify such agreements if the following conditions are met:

- The agreement must not disadvantage the employees covered by the agreement;
- The agreement must include a procedure for settlement of disputes;
- There must be a term of operation specified for the agreement;
- In the case of single enterprise agreements, at least one union having members at the workplace must be party to the agreement. It is not possible to make an agreement without union involvement;
- The unions must consult their members about the terms of the agreement;
- The unions must report the outcome of their consultations to the Commission.

This approach promises the opportunity for those who do not wish to enter into enterprise agreements remaining within the mainstream award system, although the Commission may not refuse to grant wage increases if they choose. This hybrid approach provides a greater role for the unions. Mr Ludeke argues that the unions have the ability to control the timing of claims and have been firmly entrenched in workplace bargaining, as it is the unions not the employees with whom the employer must negotiate. Under the Accord Mark VII, the unions have been given the responsibility of ensuring that 'wage increases will be consistent with keeping our inflation rate consistent with our trading partners. That is to say, the unions and not the Commission are responsible for maintaining the public interest.'[8]

This approach has meant that the IRC no longer holds the responsibility for leading labour market reform through award restructuring or a managed approach to enterprise bargaining. Roger Bulsad of the Metal Trades Industry Association (MTIA) has argued that with changes in the certified agreement provisions of the Act:

'There is no longer any requirement to link wage increases to measures designed to effect real gains in productivity under a certified agreement; there is no requirement for agreements to be negotiated through a single bargaining unit; there is no requirement for the parties to demonstrate they have considered a broad agenda for change; there are no limitations on the amount of wage increases which might be incorporated in a certified agreement and nothing to prevent an increase in annual leave or long service leave above the accepted community standard; there are no controls on superannuation; the work value principle is now irrelevant and no mechanism now exists to control the leap-frogging that will inevitably occur between paid rates certified agreements.'[9]

Opponents of this claim argue that market forces will control the aggregate wage outcome. This may be the case in a depressed labour market which has a dampening effect on wage demands. However, when the economy emerges from the recession, it has been suggested that a wage explosion could occur, particularly if the bargaining strength of the unions outstrips that of the enterprise.

Co-ordinated Regulation Model

Supporters of this model argue that there is a need for some form of external regulation of the labour market in order to ensure equity in the workplace for disadvantaged groups and between groups of employees in different enterprises performing similar work. The Metal Trades Industry Association (MTIA) is one industrial group which has supported the need for this approach, partly as a consequence of the effects of the wages break out in the metal sector in the 1970s and early 1980s.

In justifying this approach, it is argued that the formal regulatory award system of the past did not inhibit enterprises from making flexible decisions. A survey by AWIAS maintained that managers did not rate industrial relations problems as a major cause of inefficiency in the work place.

Other proponents of this model suggest that the pure market model does not lead to efficiencies within the labour market.[10] The labour market is a highly segmented and structured market. External regulation may be needed to resolve some issues that cannot be resolved at the enterprise level. In short, it has been suggested that:

- Enterprise bargaining cannot ensure appropriate aggregate employment outcomes.
- Enterprise bargaining cannot ensure consistent wage standards for workers in similar occupations.
- Unless there is some external determination of basic conditions and

wages, negotiations at the enterprise level would not constructively concentrate on issues of increasing the productive performance of the enterprise, as it will be forced to concentrate on basic issues of wages and conditions.

- Enterprise bargaining may concentrate simply on productivity bargaining.
- Enterprise agreements do not necessarily account for the skill or quality of the labour, but are based upon the bargaining strength of the parties.
- Enterprise bargaining may reduce the mobility of the work force and cause skill bottlenecks if employees are only trained to perform the functions or competencies required by an enterprise.
- Enterprise bargaining may lead to a large low wage sector in the economy, as firms adopt a short term approach of downsizing their labour force or reducing wages to gain productivity improvements.
- Enterprise bargaining may discriminate against families in the workforce.
- Enterprise bargaining agreements may require the development of lengthy legal documents which require technical interpretation and lead to dissatisfaction.

The MTIA has suggested that enterprise bargaining will only be successful if it changes the culture of any organisation. They argue that their agreements have embraced seven areas of workplace change.[11]

- work flexibility
- work organisation
- skills development
- decentralisation and turnover disputation
- performance improvement and measurement
- single bargaining units
- award restructuring

This approach has provided the industry with an agreed framework which can be negotiated at the enterprise level. They argue that enterprise agreements should focus on the measurement of productive performance as distinct from single factor productivity.

Above all, they suggest enterprise agreements must operate under a parent award, giving an industry net of protection, and the opportunity to negotiate at the enterprise level. This approach is supported by the Metal Trades Unions.[12]

International Competitiveness

Overall, while it is difficult to make international comparisons of productivity growth, it is clear that from the mid 1980s, multi-factor productivity in Australia has stagnated. Our Asian trading partners have markedly outperformed Australia. In a number of key Australian industries, notably shipping, rail transport and power generation and areas of manufacturing, our performance is below that of most industrial nations. In some areas, notably steel production, there has been considerable improvement. As an overall measure our low level of productivity growth has been reflected in Australia's growing foreign debt.

Enterprise bargaining by itself is no panacea for improving the performance of Australian industry. Market deregulation will mean that wages policy will no longer be an instrument of government policy and that problems of equity in the labour market will be compounded. Clearly until there is a resurgence in private investment funded by domestic savings, productivity will not improve to the extent needed to support growth, and gains in labour productivity may be simply derived from downsizing at the enterprise level, adding to our unemployment situation.

Notes

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4 Business Council of Australia (August 1991), 'Enterprise Agreements and International Competitiveness,' *Business Council Bulletin*, Melbourne, p6ff.

5 Ibid.

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10

ECONOMIC REFORM IN EASTERN EUROPE AND CHINA: OPPORTUNITIES FOR AUSTRALIAN TRADE

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ECONOMIC REFORM IN EASTERN EUROPE AND CHINA: OPPORTUNITIES FOR AUSTRALIAN TRADE

GARY CHITTICK

The rush to transform the command economies of Eastern Europe and the former Soviet Union from central planning to a market based allocation of resources through the price mechanism, is being undertaken without any precedent to follow and in an atmosphere of political instability if not disintegration. Some guidance is available to the reformers. The former Yugoslavia had blended central planning with some aspects of the market economy; Hungary after 1968 introduced market based reforms; while China's Special Economic Zones have produced enclaves of quasi-capitalism across the border from Hong Kong in Guangdong province, which have proven to be extraordinarily successful in raising output and living standards. If nothing else, the economic reforms in centrally planned economies have proven that entrepreneurship can still flourish with a little nurturing.

Forming a market economy entails setting up independent banks and a stock exchange, privatising industry, freeing prices, opening up foreign trade, making currencies convertible and drafting laws on property, business, bankruptcy, accounting and competition.

Managers must be trained to run the new system, people have to change the way they think and infrastructure ranging from a modern telecommunications system to computers need to be in place.

Political crisis and disintegration in many parts of Eastern Europe have meant that the march to the market has often occurred in a political void with a 'crash through' or 'crash' mentality affecting what there is of political decision-making. Examples include the struggle for political authority between President Yeltsin and Parliamentary Chairman Khasbulatov in Russia; the difficulty of getting reforms passed in Poland's Parliament where twenty-nine parties are represented; the political dismemberment of Czechoslovakia into two new republics; and the dozens of political parties vying for votes in Romania, Hungary and Bulgaria.

Economic Reform in Russia

Gorbachev's economic restructuring program – *perestroika* – which began to be implemented in the 1980s after the realisation that the Soviet economy had stagnated during the Brezhnev years of 1964–1982, was gradualist in its orientation. The principal reforms included the following:

- General decentralisation was proposed for agriculture and light industrial enterprises. The central planning function should retreat from the detailed allocation of resources to deal with strategies.

- Self-financing was to be the goal, with enterprises making their own investment decisions.
- A cautious deregulation of wholesale trade where enterprises could contract directly for their requirements.
- Incentives and flexible manning procedures, designed to allow enterprises to improve wages and attack overmanning problems.
- Privatisation proposals by freeing up co-operatives and allowing them to issue shares to members, employ labour on individual contracts, make sales and purchase contracts and distribute profits to members.
- Reform of the banking and financial system with the aim of mobilising for investment purposes the vast overhang of private savings deposits in the Soviet banking system.

But there were doubts whether these gradualist measures would work given the absence of the necessary institutions of capitalism, including an operating taxation system. In any event, the changes which swept away the old political structures in 1989 made the debate hypothetical.

East Germany and its absorption into the Federal Republic of Germany provides one of the principal case studies of transformation. On the positive side, East Germany 'acquired a functioning market economy overnight – prices set by the world market, an unimpeachably hard currency, and all the economic institutions of one of the world's most successful economies' (*The Economist*, Oct 12,1991). On the negative side, Ostmark wages were converted into D-marks at a rate of one to one, driving up production costs towards western levels. It has been estimated that a conversion rate of 4 or 5 to 1 would have been needed to offset the low productivity of eastern producers. The result was that few enterprises in the east could compete with their more productive western competitors, and in the first ten months after unification, industrial output fell by seventy per cent. The Treuhand, the Government instrumentality set up to privatise state owned enterprises has had mixed success. Many of the small to medium sized businesses have been sold off successfully to management and worker buy-outs and foreign investors, while the larger operations languish in the 'too hard basket', weighed down by low productivity, poor technology, over-manning and old fashioned products.

Western Advice

Institutions such as the IMF, the World Bank and the new European Bank for Reconstruction and Development, have all recommended similar reforms in return for western aid. The recommendations include:

- dismantling the planning agencies and public ownership;
- ending the provision and subsidisation of essential goods and services;
- an end to guaranteed employment;
- freeing of prices;
- privatisation of state owned enterprises;
- elimination of government credits;
- sharp cutbacks in government social programs;
- free trade;
- free access for foreign capital;
- convertible currencies.

Economic Reform in Eastern Europe

Poland was the first and boldest reformer in Eastern Europe. When Solidarity took over government in September 1989, it inherited an economy crippled by hyper-inflation, shortages, a large trade deficit, depleted foreign exchange reserves and heavy foreign debts. The strategy adopted in the 1990 'Big Bang' approach was to eliminate price controls, make the currency almost fully convertible, lower trade barriers and privatise businesses by liquidations, management buy-outs, joint ventures, and sales to foreigners.

The early results were not encouraging. Inflation immediately surged to hyper-inflation levels, strikes by workers demanding wage rises to compensate for price increases occurred, the budget deficit was out of control and a general slide towards economic collapse dominated 1991. Poland's real GDP dropped by 11.5 per cent between 1989 and 1990. However, by the third quarter of 1992, industrial output was up 10 per cent on the figure 12 months before, hard currency exports had grown by 12 per cent , and the trade surplus for the first half of the year had surged to $1 billion, thanks mostly to a huge increase in sales to Western Europe. Annual inflation which reached almost 600 per cent in 1990, was about 45 per cent in 1992, and is projected to fall to about 30 per cent in 1993 (*The Economist*, Jan 23, 1993).

The macroeconomic reforms created a dual economy in Poland – a fast growing private sector of small businesses able to capitalise on the reforms, and an ailing State sector of large firms.

The lack of government regulatory, administrative and taxation control over this burgeoning private sector has created winners and losers from the reforms. The uncontrolled capitalist sector now boasts 1.6m non-agricultural private businesses (up from 15,000 in 1991), while state companies number about 8,000. A quarter of all manufacturing is in private hands, as is 70–80 per cent of construction, 35 per cent of companies that export and 55 per cent that import. Publishing, restaurants and shops are almost completely privately owned and run. Overall, 55-

60 per cent of Poles now work in the private sector and it accounts for nearly half of GDP.

Many of the hard decisions on what to do with industries which not only make losses but actually reduce the value of raw materials and labour fed into them, have been postponed. How to privatise the large State owned enterprises such as the coal and steel industries; how fast and by how much do you raise energy prices to world levels, how fast do you raise rents, and what to do with the huge bad debts of the Banking system, estimated at between one-fifth and one-third of their assets, are some of the difficult questions exercising politicians' minds. At the moment the 'non-performing' loans of the banks are being quarantined into separate accounts and on-lent to the government to be subsidised by the taxpayer.

Reforms in the former Soviet Union have been even more chaotic. The Gorbachev led pro-capitalist coalition achieved the dismantling of the central direction of production and distribution on July 1, 1991 with the abolition of Gosplan, the central planning agency, and Gosnab, the supply agency, but no alternative capitalist institutions or mechanisms were in place to take over the former functions of the planning agencies to ensure the continuation of production and distribution. The immediate result was chaos.

The unrest which followed, led directly to the August 1991 coup attempt and Gorbachev's downfall, the disintegration of the Soviet Union into independent republics and the rise of Boris Yeltsin as President of Russia.

Yeltsin and his economic tsar Gaidar, promoted the fast rather than slow path of reform and accepted the IMF prescription for transformation as outlined earlier. Arguments over the correct approach to reform dominated political debate and at the same time fights were occurring between the Central authorities in Moscow and the republics over who was in control.

The atmosphere of political and economic disintegration made any program to stabilise the economy almost impossible. Any plan must do two things:

1. Stabilise the macroeconomy by reducing the budget deficit which had blown out because of a collapse in revenue collections (no effective tax agency had been put in place); free prices and trade so that individuals and companies at the microeconomic level can make allocative decisions and the prices of goods and services partially reflect real value; and importantly, prevent massive accumulated savings from causing an inflationary increase in demand.

2. On the microeconomic side, conditions have to be created for private enterprises to grow and this involves privatisation, reforms to the banking system, de-monopolisation, bankruptcy laws, etc.

The intertwining of macroeconomic and microeconomic problems and the exigencies of day to day crisis management meant that discussion about the appropriate sequencing of reforms became irrelevant. The invisible hand of anarchy guided reform, not arguments about whether prices should be freed and inflation brought under control, before or after the privatisation or restructuring of state enterprises; or whether trade barriers should be lowered before, or after, enterprises have been restructured; or how fast or slow should you do things?

The West and Europe in particular must accommodate Eastern Europe into the world trading system if it is to prevent a flood of refugees from the east seeking higher incomes in the west. Germany's IFO economic research institute estimated that the old Soviet Union would need between $184 billion and $235 billion a year to fund its reforms while the rest of Eastern Europe would require another $75–98 billion a year (*Reuter Business Report*, Nov 26, 1991). Official lending and private investment is increasing rapidly but the most effective way to help them recover and progress is to lower trade barriers.

Current reports suggest that the reforms in Russia are starting to work and the economy is showing signs of a turnaround. Manufacturing production has stabilised, inflation is coming down (19 per cent in May), the budget deficit blow out appears to under greater control and energy prices have been allowed to rise towards world levels (as from July 1, 1993). None of these reforms happened without major battles and the recent monetary reforms by the Central Bank even cast doubt over whether Yeltsin was aware of the reform itself.

Economic Reform in China

The unique pressures and difficulties which arise when you try to transform a centrally planned command economy to a decentralised capitalist market economy have also recently been felt in China. GNP and foreign trade have been growing rapidly, last year recording growth rates of 13 per cent and 22 per cent respectively. In 1992 foreign direct investment was about $11 billion. The overheated economy has led to inflationary surges and increasing disparities between urban and rural dwellers.

China's economic reforms over the past decade have produced economic growth and decentralisation of decision making. Price reform is almost complete. China has adopted outward-looking economic policies, more than half the industrial output is produced by the non-state sector, but the financial system is largely unreformed.

> 'Like all socialist governments, pre-reform China depended for its revenue on the retained earnings of the industrial firms it owned. With economic liberalisation and the competition it brings, this revenue base shrinks: consolidated government revenues have fallen as a share of GNP from around 35 per cent in 1978 to little more than 15 per cent today.' (*The Economist*, July 10, 1993).

Administrative measures to soak up excess liquidity in the economy, a ramshackle taxation system unsuited to a decentralised privatised economy, and lack of central control over regional decision-making has resulted in serious unrest in the countryside and charges that China is reverting to a form of old style economic warlordism.

Opportunities for Australian Trade

Opportunities for Australian trade with the reforming economies are enormous but many pitfalls have to be negotiated along the way. The accelerating foreign investment levels are testimony to the lucrative long-term possibilities. The need to modernise production processes, update technology, restructure firms and tackle problems ranging from environmental destruction to training accountants and managers in western business practices provide literally thousands of opportunities for Australian expertise.

At the same time it must be remembered that the main export products from Eastern Europe are agricultural and will be for some time to come. Agricultural exports will be either largely accommodated in the European Community or they will just be another addition to an already saturated world market, in direct competition with countries such as Australia.

In China and the other growth centres of Asia such as Vietnam, the opportunities for trade, particularly joint-ventures, are already being successfully exploited by a growing array of Australian companies. The growth in overall trade levels and the increasing importance of elaborately transformed manufactures, technology and infrastructure exports, and services, confirms the importance of exploiting the complementary trading positions of Australia and Asia as outlined in the reports of Garnaut and others.

External assistance and aid – investment, technology, trade and managerial expertise will be crucial if these countries are to successfully make the transition from centrally planned to market based economies.

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11

THE DISTRIBUTION OF THE GAINS FROM IMPROVED COMPETITIVENESS: THE CHANGING PATTERN OF INCOME AND WEALTH

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THE DISTRIBUTION OF THE GAINS FROM IMPROVED COMPETITIVENESS: THE CHANGING PATTERN OF INCOME AND WEALTH

JOHN MANGAN

The last decade in Australia has seen an increase in income inequality amongst both males and females, with the largest increase in inequality being amongst full-time male workers (Mangan 1992). Seen within the context of the relative economic decline and stagnant economic growth that has been characteristic of the Australian economy over a significant period of the last 15 years, such increases in income inequality are to be expected. Economic theory suggests that in recessions, factor price differentials widen as the most productive resources are sought and the least productive or demanded resources are discarded. In terms of the labour market, this would mean that **primary workers** (professional and skilled) would increase their wage payments in relation to the less skilled or **secondary workers** who would suffer either a real wage decrease or unemployment.

The behaviour of the Australian labour market has of course been more complicated than the simple example above would suggest and factors such as technological change, gender issues, and issues of employment status have interacted to produce a labour market pattern where the middle (both middle-rank and middle-aged) seems to have been squeezed as much as, if not more than, the lower end of the employment spectrum.

Nevertheless the orthodox prediction of increased income inequality in a recessed economy is still valid.

What makes the current trends in income distribution more interesting and its impact potentially more far-reaching is the argument that moves to internationalise the economy that began in the 1980s and are continuing in the 1990s have exacerbated income inequality, not as a by-product, but as an inevitable result of restructuring, particularly in the labour market.

For example, if it is argued that Australia should have a labour market cost structure similar to our major trading partners such as the United States, wage differentials between the high and lower paid workers will need to grow substantially. Unless the structure of transfer payments is altered to take account of movements in wage differentials, the inevitable result will be increases in income inequality. What is becoming increasingly clear is that the price of economic salvation via the international competitiveness route may be the creation of a semi-permanent under-class and an exacerbation of income inequalities. Politicians of both sides seem willing to accept long term unemployment of above 500000 as an unfortunate but necessary by-product of the modernisation and internationalisation of the economy. In this paper some of the distributional aspects of modernisation are discussed.

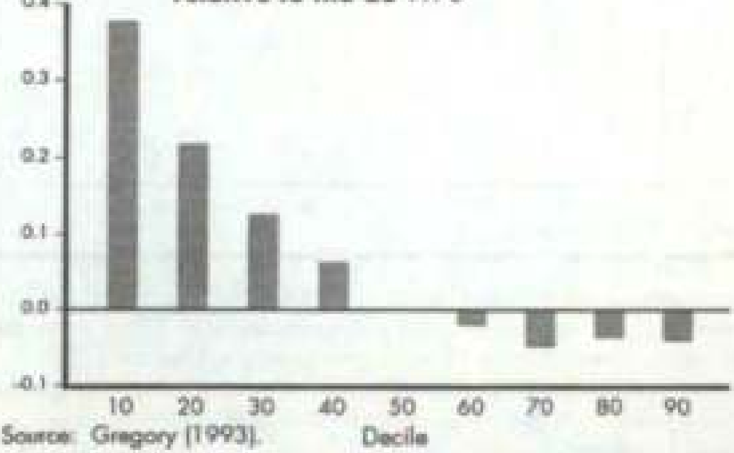
Modernisation in the Australian Economy

The process of modernising the Australian economy began with the administratively easy options of floating the dollar, financial deregulation and tariff reduction. The aim behind these reforms was, in a broad sense, to internationalise the economy and to remove the cushions that had sheltered Australia from movements in the international economy but which had instilled the uncompetitive practices which were believed to be at the heart of the comparative economic decline suffered by Australia.

These changes received broad support from economists and others in the community, but some argue that they did not go far enough. A series of influential reports into the restructuring of the Australian economy: Hughes (1988), Garnaut (1989) and the Australian Manufacturing Council (AMC, 1991), urged the Government to press ahead more rapidly with microeconomic reform, principally in the area of labour market deregulation and labour force training.

Central to the thinking of some of these economists was the belief that the Australian wage system was inflexible and produced a narrow spread of wages that did not adequately reflect real productivity differences. The result of this was to produce a wages system that was far more egalitarian than other developed economies such as the United States. Consider the data in **Figure 11.1**.

Figure 11.1: **Australian male full time wages relative to the US** 1976



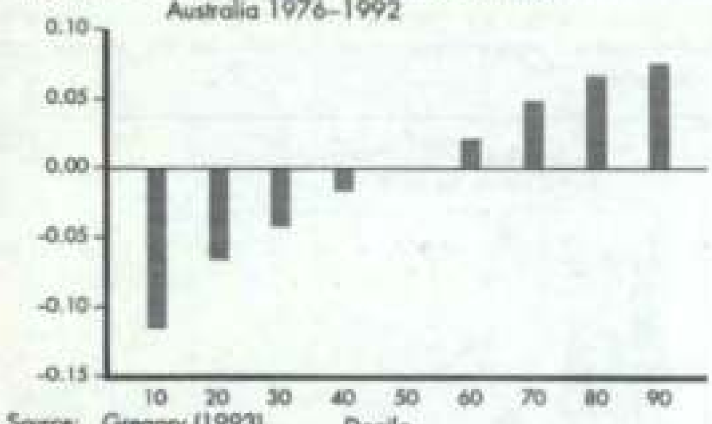
Source: Gregory (1993).

Figure 11.1 compares male full-time earnings in the United States with those in Australia for full-time male workers. (The differences between women are even more pronounced.)

It may be seen that for high paid workers, for example those in the 90th decile (top 10 per cent of earnings), Australian workers were approximately 5 per cent lower than the comparable US group. However the lower paid Australian workers were considerably better off, in both an absolute and relative sense than lower paid US workers. The data in **Figure 11.1** suggests that the lowest 10 per cent of workers in Australia had incomes up to 40 per cent higher than their counterparts in the United States. In other words the spread of incomes in the Australian wage system was considerably less than that in the United States, which is an indication of greater income equality.

In earlier times, and with different generational leaders, such egalitarianism would have been a source of national pride, given the social cohesion it almost certainly helped to promote. However in the present era of international conformity, there are considerable pressures in the Australian labour market to produce labour market wage systems more in keeping with other economies. That these forces are having some impact is shown in **Figure 11.2**.

Figure 11.2: **Male full time relative earnings**
Australia 1976–1992



Source: Gregory (1993).

It may be seen that over the period 1976–1992, that relative earnings for lower paid workers have declined considerably, for example, by 10 per cent, whilst wages for the highest paid workers have increased substantially.

However, if a US-style wage distribution system is the desired goal, then there will have to be even more dramatic falls in the relative position of lower paid workers.

Accompanying Labour Market Changes

Traditionally Australia has been one of the more egalitarian societies, particularly in terms of income distribution, for a number of reasons. Some of the reasons are historical. Being a relatively new country, Australia has yet to develop many of the ingrained inequalities, based on inheritance, that are a common feature of European society. However, in terms of relative income equality, much has to do with the development of the Australian labour market and its institutions. These include:

- Employment was predominantly full-time.
- The availability of overtime hours in lower paid jobs.
- High proportion of single income families.
- Progressive taxation with high marginal rates.
- High degree of union coverage.
- National industrial relations legislation.

The moves to bring the Australian economy in line with overseas countries has implications for all of the above, particularly with regard to industrial relations legislation.

The Labor Government has held back on substantial deregulation of the labour market or more correctly they have not encouraged major deregulation of the labour market. However the labour market has seen substantial changes. The worst aspects of these changes have resulted from an interaction between the economic recession and the structural changes designed to modernise the economy.

Changes have been most pronounced since the onset of the current recession in 1990 and are captured in **Tables 11.1 and 11.2**.

Table 11.1 **Changes in employment and unemployment in the 1990–91 Recession**

	Males		Females	
	Full-Time ('000)	Part-Time ('000)	Full-Time ('000)	Part-Time ('000)
Employment [1]	−231.1	25.7	−102.6	3.4
Unemployment [2]	270.0	20.9	114.2	19.3

1 Change between July 1990 (peak employment) and July 1991 (trough).

2 Change between October 1989 (minimum unemployment) and December 1991 (current peak).

Source: ABS database and ABS 6203.0.

Table 11.2 **Changes in employment by industry and occupation**

Industry	Full-Time	Part-Time	Males	Females	Total
	Percentage Change Feb 1990 to Feb 1992				
Agriculture	–6	6	–3	–5	–4
Mining	–11	*	–10	–27	–12
Manufacturing	–9	3	–8	–9	–8
Construction	–19	12	–16	–20	–16
Wholesale & Retail	–5	3	–2	–3	–2
Services[1]	1	12	4	4	4
Other[2]	–2	16	–3	12	0
Total	–5	9	–3	0	–2
Occupation[3]					
Blue Collar	–9	16	–5	–6	–5
White Collar	–2	3	–3	0	–1

* Sample size too small to be significant

1. Services includes Finance, Public Administration, Community Services and Recreation.
2. Other includes Electricity, Gas and Water, Transport and Storage and Communications.
3. Blue collar includes Tradesmen, Labourers and Plant and Machinery Operators. White collar includes Professions, Para-Professionals, Managers and Clerks.

Source: ABS 6203.0, The Labour Force Australia.

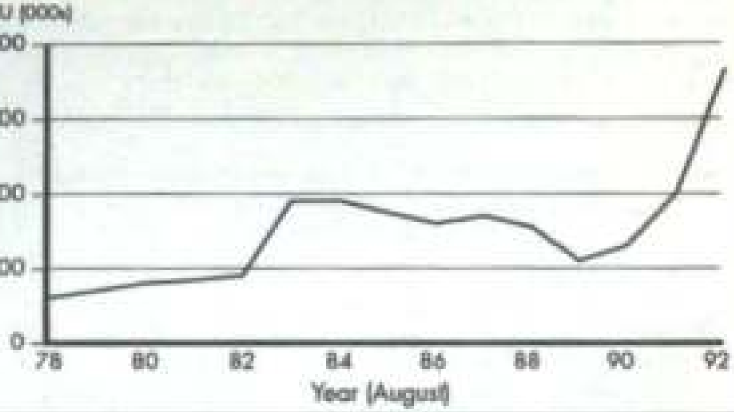
The first has been the alarming decline in full-time jobs for both males and females particularly within non-service industries. Secondly, there has been trend growth in long term unemployment.

The impact of patterns such as these has been to place pressure on the earnings of lower paid workers through increased job competition, reduced hours, especially overtime, and loss of militancy.

Most startling of all is the behaviour of long term unemployment as shown in **Figure 11.3**.

Long term unemployment has proven particularly resistant to economic stimulus and demonstrates labour market **hysteresis** (that is, that the level of long term unemployment seems to commence from a higher base level with every economic down turn). Consider the period 1984–1989. This was a period of economic boom with a large amount of increased jobs (albeit they were mainly part-time). Yet over that period long term unemployment fell by only about 50000. However since 1990, not only have all the gains

Figure 11.3: **Long term unemployment** (Persons)



been lost but long term unemployment has increased by over 150000. That is, the gains of economic recovery over six years were lost three times over in two years.

It is arguable that the changes in the economy are facilitating the creation of a permanent class of long term unemployed. Because, on the supply side, the long term unemployed have:

- **a gender problem**, being substantially male in an era where male, especially male full-time work is disappearing at an alarming rate.
- **an employment status problem** in that they seek full-time employment in an era in which part-time employment is growing.
- **a qualifications problem** in that they are either poorly educated or inappropriately educated.
- **an incentive problem**, in that increasingly the earnings gap between lower paid wages and the level of available social security is dropping.

On the demand side, none of these factors will assist the long term unemployed in sharing in any job growth that the recovery might generate. The modernised Australian economy is increasingly geared to part-time or flexible working hours, technically skilled or totally de-skilled, and if the past decade has set the trend, more favourable to females.

The Working Poor

In 1986, the visiting Canadian economist Mackay raised the, then, novel suggestion that full-time employment did not necessarily remove the risk of poverty. He suggested that a new phenomena, the working poor, was occurring in Australia. His comments related principally to single income families.

While major concern about poverty has centred upon the social security recipients, the data in **Table 11.3** indicates that the gap between available benefits and average male full-time earnings is narrowing substantially. If trends continue there will be no gap at all by the year 2010.

Table 11.3. **Excess of male full-time earnings relative to Australian unemployment benefits (married with 2 children)**

Male Full-Time Earnings	1976	1987
10th Percentile	%	%
Australian Earnings Distribution	36	18
USA Earnings Distribution	–1	–22
20th Percentile		
Australian Earnings Distribution	51	35
USA Earnings Distribution	23	6
Median		
Australian Earnings Distribution	87	77

Some Successes

The aim of this paper is not to argue against the broad thrust of the aims of modernisation and change in Australia. There is no denying that for exporting nations, the real returns lie in increasing the volume of exports in value added products, particularly elaborately transformed manufactures (ETMs) (Amar and Ketkar 1992).

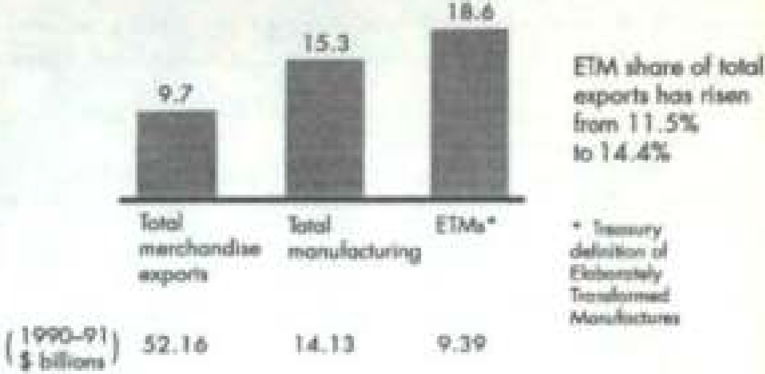
As the McKinsey Report (1992) shows there have been some successes in this area.

As **Figure 11.4** demonstrates, the share of ETMs in total exports has risen 25 per cent over the period 1986–87. The report also suggests that amongst the 700 firms surveyed, the average rate of export growth was 13 per cent compounded, which saw the value of exports (in 1992 dollars) grow from $8.3b to $15.6b in 1992.

Were such trends to continue there would be an inevitable trickle down in incomes to lower paid workers. However this trickle down effect is likely to be slow and erratic. The McKinsey Report also went on to characterise the new successful type of firm.

The major performers in this area are small to medium firms characterised by a small and often non-unionised work force, with flexible working

Figure 11.4: **Australian export growth rates**
Nominal compound annual growth,
1986–87 to 1990–91



Source: Treasury

hours and largely productivity based wage components (McKinsey, 1992) These characteristics are the antitheses of the dominant labour market systems in post-war Australia.

All of these characteristics produce winners and losers and tend to widen income differentials, particularly in a deregulated labour market.

By contrast, the much touted enterprise bargains in Australia, especially those controlled by the ACTU relate in general to larger firms. McKinsey's report on the performance of these types of companies is less enthusiastic.

Many of Australia's largest firms are multi-domestics. They operate in less tradeable sectors and, rather than going through export growth, they grow through significant offshore markets (McKinsey, 1992, p.5).

These industries are less likely to produce sufficient increases in value added output to allow income flow-ons to lower paid and unemployed workers.

Income inequality has grown in Australia over the last decade. Many reasons, both social and economic, have contributed to this. The current moves to open up and modernise the Australian economy, particularly speeding up the process of labour market deregulation, can only, in the short-run, add to this process. The major policy questions for the 1990s are whether the governments and labour market organisations can enact policies that ensure that the gains of modernisation filter down to those who are being displaced by the modernisation process.

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APPENDICES

LIST OF ATTENDEES

Bruce Addison, All Saints Anglican School, QLD
Gaye Affleck, St Hilda's School, QLD
D Andrews, Clairvaux MacKillop College, QLD
Paul Angus, Xavier College, VIC
Peter Bond, Oxley Secondary College, QLD
Ross Desmond Boyd, Trinity Senior High School, ACT
Michelle Brown, Rochedale State High School, QLD
Leslie Browne, St Hilda's School, QLD
Basil Caldicott, Downlands College, QLD
Kay Campbell, St Hilda's School, QLD
Diane Cosserley, St Mary's Anglican School, WA
Debbie Coates, Bundaberg State High School, QLD
Helen Coley, Loreto College, QLD
Mary Conaghan, St Patrick's College, QLD
Anthony Condon, Loreto College, QLD
Chris Core, Mt St Patrick Regional High, NSW
Elaine Crommelin, St Margaret's AGS, QLD
Russell Carr, Avila College, VIC
Barry Dean, St Margaret's AGS, QLD
Maureen Donaldson, MacGregor State High QLD
Richard Doyle, Charles Sturt University, NSW
Samantha Dwyer, St Mary's College, QLD
Lester Elser, St Saviour's College, QLD
Brent Farquhar, Blackfriars Priory School, SA
Don Fearns, Hawker College, ACT
Patricia Gintowt, Blue Mountains Grammar School, NSW
Simon Godden, Sutherland Christian School, NSW
Lyle Gorchee, Wavell State High School, QLD
Garry Graves, Saint Patrick's College, NSW
Janusz Haschek, Gloucester High School, NSW
Mario Havlik, Ascham School, NSW
Peter Handrandakis, Brisbane Grammar School, QLD
Joe Jones, Downlands College, QLD
Peter Judd, Oxley High School, NSW
Greg Juniper, St Michael's College, QLD
Amanda Kadwell, MLC School, NSW
Lyle Kirkwood, Queensland University of Technology, QLD
Vicki Knopke, Rosewood Senior High School, QLD
Angela Langton, Unisearch Ltd UNSW, NSW
Graham Leigo, Meriden School, NSW
Maryanne Lynch, St Clare's High School, NSW
Robert MacCulloch, TAFE Economics Dept ,NSW
Nicholas Martin, Ivanhoe Girls' Grammar School, VIC
Lorraine McGregor, Southport State High School, QLD
John Nicol, Knox Grammar School, NSW
Mary Nicolson, Radford College, ACT
Anne O'Regan, Wynnum North State High School, QLD
Libby Prindable, Keebra Park State High School, QLD
Christine Reid, Australian Bankers' Association, VIC
Ron Reilly, Insearch Institute of Commerce, NSW
Tim Riley, Economics Education Resource Centre, NSW
Mark Robertson, St Ursula's College, NSW
Peter Robertson, Trinity College, WA
Chris Ryan, Rockhampton Grammar, QLD
Ian Searle, Brisbane Grammar School, QLD
Lee Snelson, Richmond River High School NSW
Kay Stephens, Concordia College, QLD
Lee Stewart, Bellingen High School, NSW
Ross Thickett, Central Coast Grammar School, NSW
G. Veletic, San Sisto College, QLD
Faye Vickers, San Sisto College, QLD
Tony Walker, Stanthorpe Senior High School, QLD
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ABBREVIATIONS

AAPBS	Australian Association of Permanent Building Societies
ABS	Australian Bureau of Statistics
ACTU	Australian Council of Trade Unions
AFC	Australian Finance Conference
AFCUL	Australian Federation of Credit Union Leagues
ALP	Australian Labor Party
AMC	Australian Manufacturing Council
AMIC	Australian Mining Industry Council
ARA	Australian Retailers' Association
ASEAN	Association of South East Asian Nations
ASX	Australian Stock Exchange
BCA	Business Council of Australia
BHP	Broken Hill Proprietary Limited
BHPAC	Broken Hill Proprietary Australia Coal
BIE	Bureau of Industry Economics
CEO	Chief Executive Officer
CHESS	Clearing House Electronic Sub-register System
CPI	Consumer Price Index
CSO's	Community Service Obligations
CUSTA	Canada United States Free Trade Agreement
DITAC	Department of Industry, Trade and Commerce
EC	European Community
EPAC	Economic Planning and Advisory Council
ETM's	Elaborately Transformed Manufactures
FAST	Flexible Accelerated Security Transfer
GATT	General Agreement on Tariffs and Trade
GBE's	Government Business Enterprises
GDP	Gross Domestic Product
GNE	Gross National Expenditure
GNP	Gross National Product
IAC	Industries Assistance Commission
IC	Industry Commission

ICA	Insurance Council of Australia
IMF	International Monetary Fund
IPAQ	Institute of Public Affairs of Queensland
IRC	Industrial Relations Commission
LIFA	Life Insurance Federation of Australia
LTU	Long Term Unemployment
MTIA	Metal Trades Industry Association
NAFTA	North American Free Trade Association
NIEF	National Industry Education Forum
OECD	Organisation for Economic Co-operation and Development
OHP	overhead projector
QETA	Queensland Economics Teachers' Association
QUT	Queensland University of Technology
RBA	Reserve Bank of Australia
REER	Real Effective Exchange Rate
SEATS	Stock Exchange Automated Trading System
TAFE	Technical and Further Education
TOT	Terms of Trade
TWI	Trade Weighted Index
ULC	Unit Labour Costs
YES	Young Enterprise Scheme

GLOSSARY OF TERMS

Accord	an incomes policy or social contract between the ACTU and the federal Labor government established in 1983 and re-negotiated over successive Labor governments
Accord Mark VII	1993 version of the Accord agreement which committed the parties to continuing the process of enterprise bargaining, limiting pay increases to $8 per week, and committing the government to creating 500000 new jobs over 1993–1996
aggregate wage outcome	the percentage change in real average weekly earnings over a year
annual leave	employee entitlement for paid holidays on an annual basis in lieu of full time employment
anti-dumping	government legislation outlawing foreigners selling goods at below cost in other markets
APEC	the Asia Pacific Economic Co-operation negotiations were commenced in 1991 to foster closer and more liberal trading relations between the member nations
appreciation	increase in purchasing power of a domestic currency in foreign currency terms
arbitration	process by which an industrial dispute is resolved by an independent third party or arbitrator
ASEAN	the Association of South East Asian Nations consists of 10 member nations and was formed in 1956 as a policy forum for discussion of trade and economic issues
Asian Tigers	newly industrialised countries that include Hong Kong, South Korea, Taiwan & Singapore
award restructuring	process of rationalising existing awards by negotiation between employees and employers
awards	legally binding agreements over wages and working conditions for particular occupations enforced by federal and state industrial tribunals

balance of payments	a system of accounts recording all current and capital transactions between residents of one country and the residents of the rest of the world
bargaining strength	relative market power of trade unions and employer groups in wage negotiations
bids	quoted highest buying price for a share or financial security
border prices	prices of imports before the effects of tariffs or quotas distort such prices
brokerage commission	fee charged by stockbrokers for buying and selling shares on behalf of their clients
business-education links	relationship between educational institutions like schools and the business community
capacity of industry to pay	ability of a group of firms to finance a possible increase in wage levels
capital flows	the lending and borrowing of funds between countries
capital formation	net additions to the stock of capital, including plant & equipment, works in progress & residential construction
capital market	mobilises saving from surplus units (households) to be used for investment by deficit units (firms). It involves the purchase and sale of financial instruments
capitalist countries	countries with market economies where private enterprise and ownership are encouraged
career paths	occupations where an employee can acquire more sophisticated knowledge and skills over time
central planning	process of setting production targets, prices, incomes and the allocation of resources by a central planning authority in socialist economic systems
certified agreement	an enterprise bargain ratified by the IRC making it part of an existing award
collective bargaining	where employees and employers bargain directly over wages and working conditions

command economies	a system of socialist economic organisation where decisions concerning resource allocation and income distribution are made by a central planning authority
commercialisation	encouraging a GBE to operate in a commercial environment
comparative advantage	the ability to produce the same output with greater comparative efficiency than another producer
competition	market situation where a number of producers provide consumers with alternative sources of supply and entry into the market is relative easy
competitive advantage	the ability of a firm or a nation to utilise factor and demand conditions to achieve and maintain market success
competitive tendering	where private economic agents bid to supply a good or service to another party who usually accepts the lowest bid or tender price
conciliation	process by which an industrial dispute is resolved by an independent third party or conciliator attempting to get the conflicting parties to agree on a solution
contestable market	market situation where it is possible for new entrants to come in and compete effectively with an incumbent producer
contracting out	allowing private sector providers to bid for the right to supply services to GBE's
corporation	a legally constituted body of individuals with powers, responsibilities and liabilities distinct from its members or owners
corporatisation	encouraging a GBE to adopt a private sector model of behaviour whilst operating in a commercial environment
cross subsidies	overcharging some users in order to undercharge other users to meet community service obligations e.g subsidising country telephone users by charging city users more for calls.

CSO's	community service obligations are commitments by many GBE's to provide services to the community which wouldn't otherwise be provided by the private sector because of prohibitive cost e.g. similar local call charges for both country and city telephone users
currency convertibility	facility for converting domestic currency into the equivalent value of foreign currency
current account deficit	a situation where total current account debits (imports of goods, services and transfers) exceed total current account credits (exports of goods, services and transfers) in a country's balance of payments
debt finance	capital borrowings raised through the issue of debt instruments such as bonds and fixed interest securities
debt servicing	paying some proportion of export income as interest on outstanding foreign debt
decentralised labour market	where negotiations and decisions over wages and working conditions are made at the enterprise level and not at the national level
decile	one unit of a division of a distribution into ten groups each having the same frequency
depreciation	decrease in purchasing power of a domestic currency in foreign currency terms
deregulation	a process whereby direct government regulatory controls over market forces are removed
direct investment	where investors establish or buy a controlling interest in a company offshore which usually involves a transfer of technology
dividends	part payment out of company profits to shareholders
domestic shock	an economic disturbance originating within the domestic economy such as the 'wages explosion' in 1982
downsizing	euphemistic term for management decision to reduce the size of the enterprise's operation and its work force
economic growth	the rate of increase in real GDP

economic literacy	understanding of basic economic principles and skills and how they apply to the real world
economic performance	a country's record of achievement in securing increases in real income, employment and balance of payments equilibrium
economic reform	government or private sector policies to alter the allocation of resources and operation of markets to secure efficiency gains
economies of scale	reductions in unit costs of production as output increases
effective competition	unlike perfect competition it is a real world situation where there are sufficient producers and price and product competition for competitive market outcomes to be achieved
effective rates of assistance	the amount of assistance provided to an industry expressed as a percentage of the total value added by the industry's activity
employees	those units of labour employed in an enterprise
employers	owners of enterprises which employ labour as a productive input
enterprise agreements	certified agreements between employees and employers at the enterprise level over work organisation, wages and working conditions
enterprises	businesses organised for commercial purposes
equity finance	capital raised through the sale of units of ownership in assets e.g. capital raised through a new share issue floated on the Stock Exchange
ETM's	elaborately transformed manufactured goods such as computers, instruments, tools, transport equipment and pharmaceuticals
ex post	in the actual or realised sense
ex ante	in the planned or intended sense
exogenous factor	an externally sourced disturbance to the economy
exports	those goods and services sold by domestic residents to foreign residents

external debt	the total amount of funds owed by domestic residents to foreign residents (it includes the borrowings of the private and public sectors)
external shock	an economic disturbance such as the oil price rise in 1974 which is transmitted to the domestic economy from the world economy
factor costs	costs of the factors of production such as wages for labour, interest for capital, rent for land and profit for enterprise
factor market	a market where the factors of production are bought and sold such as the labour market and capital market
Fightback!	Liberal-National Party policy document released in November 1991 containing proposals for a GST and other wage and tax measures
footloose capital	international capital flows which seek out the highest returns and are not constrained by any country specific factor
foreign exchange	internationally traded currencies
intervention	a situation where the central bank intervenes in the foreign exchange market either directly or indirectly in an attempt to influence the market determined exchange rate
foreign exchange market	a market where buyers and sellers of foreign currencies engage in exchange transactions
foreign exchange reserves	the holdings of gold, foreign currencies and Special Drawing Rights with the IMF by the central bank authorities
franchising	allowing a business to market under a brand name or sell another company's product or service
free trade	trade that takes places in the absence of any form of government protection of industry
freely floating exchange rate	the exchange rate's value is determined purely by market forces with no intervention by the central bank authorities

full bargaining	process of direct negotiation between employees and employers over wages, working conditions, the introduction of technology and a wide range of employment related issues
gains from trade	the benefits of trade include greater production, consumption, lower prices, higher incomes and living standards
GATT	the General Agreement on Tariffs and Trade is a multi-lateral trade treaty signed by 23 nations in 1947
GBE's	government business enterprises such as Telecom, Australia Post and NSW Water Board
general education	a broad based education where people acquire knowledge, skills and abilities in a range of science and humanities subjects
globalisation	tendency for multinational corporations to move technology and capital around global markets to reduce costs and to market final output worldwide
Gosnab	central supply agency in the former Soviet Union
Gosplan	central planning authority in the former Soviet Union
government regulation	imposition of government controls over the operation of business and markets such as intervention in pricing, market entry, product standards and licencing
govemment regulation	legislative controls over the operation of markets such as entry restrictions and price or output controls
hard currency	paper currency or coins which have real purchasing power
hyperinflation	runaway or galloping inflation which is usually measured in hundreds of per cent
hypothesising	proposing an explanation for an observed set of phenomena
import competition	competition created for domestic producers by foreign producers selling goods and services in the home market

import penetration	the ratio of imported goods' share of total domestic sales
import substitution	policy of establishing industries which produce goods which are usually imported, thereby reducing reliance on foreign producers
imports	those goods and services purchased by domestic residents from foreign residents
incentives	measures designed to raise productivity by providing people with rewards (bonuses, higher incomes, higher prices, higher profits) for increasing output
income inequality	large differences in the distribution of income between low, middle and high income earners
Industrial Relations Commission	federal body charged with hearing the National Wage Case and making legally binding award decisions
industrial relations	set of arrangements between employees and employers for dealing with all aspects of work organisation, wages and conditions
inflation	a sustained rate of increase in the general level of prices accompanied by a fall in the value of money
infrastructure	social overhead capital such as roads, bridges and hospitals
interactive teaching strategy	is one that involves action taking place between two or more people in the teaching/learning process
intermodal competition	competition between alternative services or goods in a broad market such as that between road, rail, air and water transport
international competitiveness	the ability of a country to compete effectively in world markets with foreign products because of cost advantages, product quality and innovation
international trade	specialisation and exchange of goods and services between different countries

internationalisation	exposure of the economy to world market forces, including a larger percentage of GDP being sourced from net exports (exports minus imports)
intra-area trade	trade between countries within a particular geographic area or region such as Asia
intra-industry trade	trade in components and materials between firms in an industry located in different parts of the world which may often be subsidiaries of a parent company
investment	the creation of real capital goods
joint venture	a business project involving two or more corporate partners
key competencies	six competency strands identified by the Mayer Committee (1992) that students should grasp in Years 11 & 12
kinaesthetic learners	people who enjoy moving around and physical sensation in the learning process
labour force	percentage of the population willing and able to work (labour force includes those employed and those unemployed)
labour market	a factor market where labour resources are allocated according to the demand and supply for labour
labour market hysterisis	tendency for unemployment to commence from a higher base level with every recession
labour market reform	increasing the flexibility of the labour market through the introduction of enterprise bargaining
leap frogging	where a trade union may seek a wage increase (without going through a normal bargaining process) based on the successful achievement of a wage claim by another union
lease	a legal contract conveying the use of property to another party for a specified period of time.
limited liability	liability of shareholders for the debts of a public or private company are limited to the extent each shareholder's equity

liquidity	ease with which an asset can be converted into cash
long service leave	employee entitlement for paid leave over and above annual leave on the basis of at least eight years full time employment with the same employer
long term unemployment	those people in the work force unemployed for over twelve months
macroeconomic policy	government monetary, fiscal and wages policies designed to achieve macroeconomic objectives such as price stability, full employment, economic growth and balance of payments equilibrium
market capitalisation	the number of shares available for trading multiplied by the value of shares in the market.
market economies	economic systems based upon private property rights, freedom of enterprise, the rule of law and free functioning product and factor markets
market prices	prices of goods and services determined by market demand and supply
McKinsey Report	research findings released in June 1993 on the features of successful Australian exporting companies and firms
menu costs	the additional costs incurred by economic agents in transacting business due to an increase in inflation
Mercantilists	an eighteenth century School of thought which advocated the hoarding of gold bullion as a means of increasing a nation's prosperity
merchandise exports	exports of goods only
microeconomic reform	a range of measures such as increasing competition in product and factor markets and the efficiency of government trading enterprises to raise national productivity
monetary policy	control of the rate of growth of the money supply by the Reserve Bank of Australia through its manipulation of the official cash rate and its indirect impact on the term structure of interest rates

multi-factor productivity	a broad measurement of productivity taking into account the relative productivities of land, labour, capital and enterprise
multinational corporations	companies which operate on a global scale and may have subsidiaries based in countries other than where the parent is headquartered
multiskilling	process whereby labour is able to acquire numerous work related skills
natural monopoly	where one firm with an efficient scale of plant can supply the whole market because unit costs continue to fall as output increases
nominal exchange rate	the price of the domestic currency in terms of a foreign currency not adjusted for relative inflation rates
non-tradeable sector	sector of the economy producing goods or services that are not exportables or import competing
offers	quoted lowest selling prices for a share or financial security
operational efficiency	achieved by firms able to produce at lowest average cost and the prices charged reflect the marginal cost of production
opportunity cost	the cost or opportunity forsaken in pursuing one alternative instead of another
ORANI	complex macroeconomic model of the economy containing hundreds of variables and used for econometric modelling research
ordinary share	unit of ownership in a public company entitling shareholder to a share of the profits (dividends) and the possibility of a capital gain if share prices rise above initial par value
over award payments	payments negotiated directly by employees and employers which are in addition to the minimum wages and conditions set out under various awards
over-capitalisation	where capacity to produce far exceeds actual demand

over-manning	having more workers per unit of output than are needed to produce an efficient level of output
participation rate	percentage of the working age population actually in work or actively looking for work
partnership	a business enterprise of between two and twenty owners with unlimited liablity
pay relativities	the relationship between wage levels for different occupations
perestroika	term used to refer to the process of economic restructuring that took place in the former Soviet Union during the Gorbachev era
portfolio investment	where investors provide equity or debt finance to borrowers
positive sum game	there are more winners than losers so that the sum of gains over the sum of losses is positive
preference share	shares with less risk than ordinary shares since preference shareholders rank ahead of ordinary shareholders in case of bankruptcy but carry a fixed dividend rate
price mechanism	interaction of market forces of supply and demand to determine relative prices and resource allocation
primary workers	professional and skilled workers who are usually on high incomes and in full tme employment
private sector	consumers and privately owned business enterprises
privatisation	action taken to sell off part or all of a public asset to the private sector. It can also take the form of competitive tendering by the private sector for the right to provide public services or contracting out of services previously provided by the public sector
product market	the market for allocating final goods and services to consumers
productive efficiency	measure of whether production is at least cost or minimum average cost

productivity bargaining	process of direct negotiation between employees and employers over work practices
productivity	output per unit of labour per unit of time
protection	any artificial advantage bestowed by government on domestic industry to make it more competitive against foreign industry
public monopolies	government owned enterprises which have exclusive rights to sell a particular product or service to the market such as postal services and the provision of electricity
public sector	government departments, agencies and trading enterprises
purchasing power parity	the relationship between currencies whereby exchange rates in the long run reflect relative inflation rates between countries
quid pro quo	one thing in return for another
quotas	quantitative restrictions on imported goods, giving competing domestic industries some measure of protection
real effective exchange rate	the nominal exchange rate adjusted for differences in inflation or unit labour costs between countries
real exchange rate	the nominal exchange rate adjusted for relative inflation rates between countries
real GDP per capita	real income per head of population
real income	money income adjusted for inflation
real interest rate	the nominal interest rate minus the expected rate of inflation
recession	a phase of the business cycle characterised by two consecutive quarters of negative economic growth
relative unit labour costs	differential in labour costs per person between countries
restructuring	changes in the allocation of resources and institutional arrangements governing the organisation of work in an enterprise or an industry as a whole

retention rate	the percentage of eligible students going on to complete Years 11 & 12 in high school
savings	that part of income not consumed and used to finance investment spending
secondary workers	semi-silled and unskilled workers who are usually on low incomes and in part-time employment or subject to periodic unemployment
shareholders	the owners of public and private companies' paid up capital
short selling	market participants sell shares which they do not own. Commonly they sell 'short' at a higher price and purchase or settle at a lower price, resulting in a profit to the market participant 'going short'.
socialist countries	resource allocation is undertaken by central planning and state ownership of the means of production prevails
specialisation	allocation of resources into specific fields of production in order to reap economies of scale
speculation	trading in currencies, commodities and shares in the hope of realising profits due to changes in market prices
STM's	simply transformed manufactured goods refer to items such as metal products (plate, sheet, rolled and galvanised steel) which have undergone low value added processing in production
stock exchange	market where financial securities such as shares, rights and options are traded
strategic trade theory	argument that free trade does not exist in many markets because they are dominated by a *few* large multinational firms which erect barriers to entry through scale economies and technological superiority. Suggested policy prescription is for governments to intervene and assist domestic firms to gain strategic positions in some world markets
structural change	process whereby resources in the economy are reallocated away from low return (declining) industries to high return (growing) industries

subsidiaries	wholly or partly owned branches of a parent company which may be located offshore
subsidies	cash payments to domestic producers designed to increase domestic supply and reduce prices in order to protect them from foreign competition
superannuation	provision out of current earnings for retirement income paid as a lump sum or as an annuity
tariffs	taxes on imported goods, designed to raise their landed prices and therefore give domestic competing industries some measure of protection
technology transfer	usually associated with direct investment and is the exchange of new production techniques and expertise
terms of trade	the ratio of the export price index to the import price index, expressed as a percentage
The Diamond	the four factors in Porter's view which determine a firm's competitiveness: firm strategy, structure and rivalry; factor conditions; demand conditions; and related and supporting industries
the level playing field	a situation where all enterprises face the same competitive environment through the withdrawal of privileges to firms previously advantaged by protection or exemption from taxation liabilities or the real cost of raising capital in financial markets
total quality management	adherence to a set of guiding principles by management in an attempt to raise and maintain high levels of business efficiency, profitability and and managerial practice
trade barriers	any artificial impediment to free trade between countries such as tariffs, quotas, subsidies and voluntary export restraints
trade ratio	the ratio of the value of exports plus imports of goods and services to GDP expressed as a percentage

trade union	a group of employees who join together to increase their bargaining strength in relation to negotiations over wages and working conditions
tradeable goods sector	economic sector that includes export industries and import competing industries
training	the development of certain skills, knowledge and attitudes to enable a person to perform a job
transaction cost	cost of actually doing business
transfer payments	social security benefits funded through progressive taxation and transferred to low income or zero income beneficiaries
turnover	price times quantity sold, or value of trading over a certain time frame
TWI	the trade weighted index is a measure of the effective exchange rate for the Australian dollar against a basket of currencies weighted in terms of their importance in Australia's trade
unemployment	a situation where the demand for labour is less than the supply of labour causing some labour or other resource to be idle or unemployed
Uruguay Round	latest Round of GATT talks on trade liberalisation commenced in Uruguay in 1986
vocational education	a system of education that includes on the job training and equipping of students with skills required in the labour force
vouchers	expenditure coupons which can be used by consumers to pay for units of a good they choose to consume from a range of potential suppliers
wage bargaining	process of direct negotiation between employees and employers over wage levels
wage demands	claims by trade unions for increases in money wages
wage determination	process by which wages are set in the labour market with or without the involvement of third parties such as trade unions and centralised wage-fixing authorities

wage differentials	differences in wage levels between workers according to occupation, industry, gender, age, country or some other variable
wage explosion	situation where wage increases leapfrog each other leading to wage inflation
wages	factor return to labour for its contribution to production
work practices	particular ways in which work is organised in enterprises between workers and management
work value principle	wage determination criterion based on the relative value of work performed by an employee
working poor	theory suggesting that single low income families are little more affluent than those on social security benefits
zero sum game	those who gain do so at the expense of those who lose, so that the sum of losses and gains is zero

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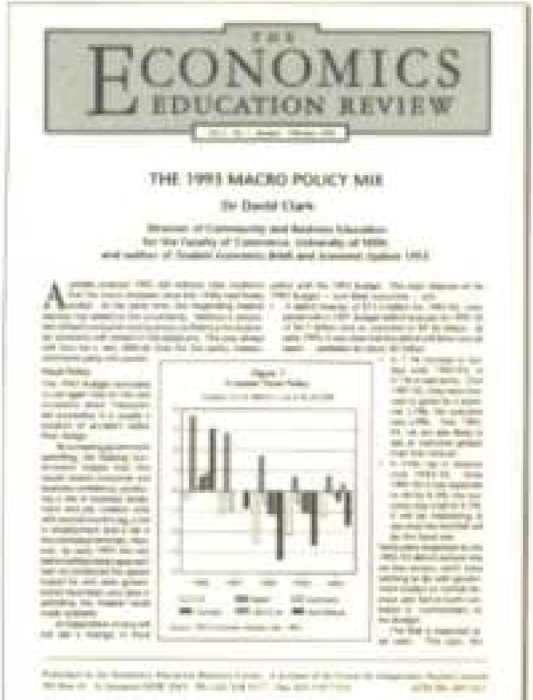

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