AUSTRALIA'S BALANCE OF PAYMENTS:
ANALYSIS OF RECENT TRENDS

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Every month the most recent current account figures are released in a flurry of media 'hype'. Persistent current account deficits, of the order of $1bn a month, continue to plague the Hawke Government and place it on the defensive against media criticism. But the media has for long reflected a partial and distorted view of Australia's current account problems. At the simplest level, the media picture is two-fold. Australia has a persistent trade deficit (exports insufficient to pay for imports) and a substantial debt problem. The first is blamed on a lack of international competitiveness, which reduces to a problem of excessive wages. The second is blamed on excess government spending. Thus another dimension of Australia's economic dilemma is attributed to the twin pillars of high wages and big government.

Pervading the media commentary is an unquestioned set of assumptions regarding appropriate economic policy and Australia's role in the global economy. These assumptions are fundamentally misleading.

First, policy options are typically discussed only at the aggregate level, the exception being the push to eliminate so-called structural inefficiencies, impediments to a more freely-acting 'market economy'. This 'aggregate' orientation is reflected in the reliance on automatic improvement in international competitiveness via both general wage restraint and (for a period) the 1985-86 devaluation of the dollar. Similarly, the aggregate emphasis also fosters a 'multilateral' approach to trade negotiations. Hawke's economic advisers have been active at international talkfests, attempting to reduce the barriers to agricultural and primary trade. They estimate that if all barriers to trade were eliminated, Australia's exports would increase by $3bn. One needs to treat this figure

with some scepticism, given the speculative character of the exercise. Behind such estimates lies an extraordinary diversity of possible structural adjustments (both domestic and international) - dramatic capital flows, exchange rate variations, further political resistance, and so on.

More fundamentally, a pure free trade regime is unachievable. It is true that, for example, Australian negotiations have had some success on the Japanese beef market (through US pressure). However, agricultural/primary subsidies and barriers are the product of a long series of delicate political compromises in various countries. The resulting balance of power is deeply entrenched, and offers substantial resistance to the multilateral thrust. Bemoaning hypothetical losses because of the absence of free trade is akin to Nero fiddling while Rome burns.

Second, there is an entrenched notion that particular countries possess an *innate* relative economic advantage in the production of specific commodities; and in turn, that international trade based on such specialisation of production is conducive to a global increase in material welfare. This is the traditional theory of 'comparative advantage'. The local policy elite have a wholly static conception of Australia's comparative advantage, pragmatically altered to serve the changing interests of internationally mobile capital. There is no acceptance that particular sorts of import substitution (or exports) might be strategic in economic reconstruction, requiring special attention. Indicative of this neglect is the indifference to the reconstruction of the heavy engineering sector in Australia and to the institutions which have worked towards such reconstruction.[1]

If the state does not assertively pursue a structure of industry and trade that is compatible with long-term international payments viability, an alternative structure will be imposed or developed pragmatically by default. The latter direction may have an adverse influence not merely on the long-term balance of payments, but on the local environment and culture. Rain-

1 See, for example, Metal Trades Unions (1983); summarised in Stilwell (1984).

forest logging, uranium mining, and major dependence on the tourist dollar are all representative of a passive approach to trade and of a subordinate role in the global economy.

Australia's customers don't share this passive approach to industry and trade policies. For example, 90% of Australia's new pianos come from Japan and Korea. Did these countries possess an innate comparative advantage in piano production? The notion is absurd; they created one. With regard to Japan, the same goes for automobiles, optical equipment, motor cycles, bicycles, gold clubs and electronics. If Australia has a 'comparative advantage' in wool, the comparable product in Japan is raw silk. But the US stopped buying raw silk in large quantities in the 1920s and Japan has undergone multiple industrial transformations since that time.

In order to develop a more coherent understanding of Australia's trade and debt problems, it is necessary to examine in some detail the balance of payments figures, using various official bulletins from the Australian Bureau of Statistics.[2] This involves dissecting the key categories of financial flows within the current account, and the changes in investment levels recorded in the capital account. Additionally, further information on the country and commodity composition of trade is presented, and on the symbiotic relationship between economic 'growth' and import penetration. In this process, one hopes to offer some critical perspective on the values entrenched in the conventional wisdom.

2 The significant ABS bulletins are: *Balance of Payments, Australia*; *Foreign Investment, Australia*; and *Foreign Trade, Australia: Comparative and Summary Tables.*

The Current Account Deficit - merchandise trade, services trade or income payable?

At the aggregate level, the total deficit on current account was roughly $11.9bn in 1987-88, growing from $5.6bn in 1980-81. In 1986-87, the deficit reached a peak of $13.2bn. These absolute figures need to be compared to some broad aggregate (gross domestic product) for comparative significance. The deficit on current account as a percentage of GDP has increased from around 2% in the early 1970s to 5-6% in the mid 1980s, falling to 4% last year. The Government's hopes of a healthier trend have been dampened by the running-up of a $5.4bn deficit in the first four months of 1988-89.

What lies beneath the aggregate figures? The current account comprises four categories of income flows or liabilities - those associated with merchandise (commodities) trade, services trade, income payable (mostly on investment of capital attributable to non-Australians), and 'unrequited transfers' (e.g., wealth transfers associated with migration). In 1987-88, a small surplus in merchandise trade was swamped by deficits in services trade ($3.1bn) and income payable abroad ($10.7bn), contributing to a total deficit of $12bn.

There has been a deterioration in the merchandise trade balance, typically in deficit since 1980-81. The small surplus on merchandise trade in 1987-88 ($140m.) is uncharacteristic of the last decade and there is no obvious reason why it should be sustained. Trade in services and income payable on investment have always been in deficit. For the bulk of the post-war period, merchandise trade has offset these deficits to some extent (save for a massive deficit in 1951-52, linked to an imports surge after the Korean War wool boom). But the services deficit started to blow out in the mid-1970s and the income payable overseas likewise in the early 1980s.

What is in the 'services' category? This includes shipping payments (both freight and passengers), port services and insurance services. Net debits on freight shipments costs amounted to $1.3bn in 1980-81, increasing to

$2.3bn in 1987-88. Total net debits on services amounted to $2.2bn in 1980-81, increasing to $3.1bn in 1987-88 (a decline from the previous two years). A hefty deficit is thus incurred every year because the bulk of Australian merchandise trade is carried in ships owned overseas. This has very little to do with local wage levels. It has more to do with an inability or unwillingness to sustain a sizable international ship industry.

A range of other items is of increasing significance in the services trade category (all hidden in the residual 'miscellaneous services' category). These include consultancy, advertising, computer services, leasing, commercial agents, entertainment (bringing out Frank Sinatra and Mick Jagger) and education. Both exports and imports of these items are escalating, but imports are rising faster. In 1987-88, there was a net deficit on these items of over $0.5bn.

Thus, regarding the trade balance, the long-standing problem has been a deficit in services, not in merchandise. As a consequence, Australia would have to counter this services deficit directly, or run a persistent surplus on merchandise trade to finance these services debits. Recently, there have been some conscious efforts directed to expanding exports of services, notably in the spheres of education and entertainment. In the foreseeable future, it is highly improbable that a merchandise trade surplus sufficient to offset the services deficit is attainable.

The biggest debit on current account, however, is net income payable overseas (in the form of dividends, interest,etc). This item increased from $2.8bn in 1980-81 to $10.7bn in 1987-88. Net income as a percentage of GDP was roughly 2% for the decade before 1982-83, increasing steadily to almost 4% last year. Income payable is constituted as a category in the current account because it represents a flow of income. To understand this category requires consideration of the capital account.

The Capital Account: driven by the current account deficit?

The capital account shows net changes in the stock of financial assets over the financial year. Capital flows 'into and out of' Australia (more accurately, attributable to Australians) have escalated since 1983 with the deregulation of the exchange rate and the abolition of exchange controls.[3] Net 'non-official' capital inflow has grown in the 1980s, from an annual increment of $5.6bn in 1980-81 to an increment of $9.9bn in 1987-88 (the 'non-official' category will be explained in the next section). The net figure hides a dramatic increase on both sides of the ledger. In the period under consideration, the *annual increments* to foreign investment in Australia increased from $6.1bn to $16.4bn. This increase was partially offset by a historically unprecedented rise in the additions to Australian investment abroad, from $0.5bn to $6.5bn ($7.8bn in 1986-87). The *total* level of foreign investment in Australia has increased from $47bn in June 1981 to $174bn in June 1987 (the latest figures available). For the same period, the total level of Australian investment abroad increased from $14bn to $60bn.

Yesterday's capital inflow is today's outflow of interest and dividends on the current account. Annual income debits (not including Reserve Bank activity) have increased from $3.7bn in 1980-81 to $13.9bn in 1987-88. This has been partially offset by income payable from abroad, increasing from $700m. in 1980-81 to $2.5bn in 1987-88. Nevertheless, net annual income debits have increased from $3bn to $11.4bn in the same period. This increase has been the major element in the blow-out of the current account deficit.

In general, income payable abroad has increased because of increased net investment from abroad (in the form of both equity and debt). But it has also increased because of increased nominal interest rates on debt in the

3 Useful detail on key policy measures facilitating financial deregulation is listed in Appendix A, ABS, Cat.5305.

last eight years and because the substantial devaluation of the dollar between 1983 and 1986 increased further the effective interest charges (in Australian dollar terms) of borrowings denominated in hard currencies.

The dominant policy perspective sees Australians as 'living beyond their means' (deficits on current account), which leads to increasing indebtedness to foreigners (capital account). The current account deficit has to be offset by capital inflow, this being shown in the capital account. This leads to the popular presumption that the current account 'drives' the capital account. However, it is more insightful to view the causation as mutual - the capital account partly 'driving' the current account. The 1980s have witnessed a more dramatic internationalisation of capital flows than had existed in the 1960s and 1970s. There has also been an escalation in the size and volatility of capital flows seeking both speculative profits and higher interest rates. The capital account records these flows, albeit imperfectly. The *consequences* of these flows in the form of income flows are recorded in the current account. The fact that media attention typically focuses on current account figures distorts the causal significance of the full range of financial flows.

Foreign Capital Inflow and Debt: caused by the public or private sector?

A key concern in the capital account is the relative percentage contribution of the public sector and the private sector to total debt. The perennial implication in media commentary is that the expanding debt is due to government mismanagement and that cutting government spending drastically will eliminate the foreign debt.

How can we use the available data to obtain a more realistic picture of this issue? In the ABS bulletins, public capital transactions are divided into three categories - the activities of the Reserve Bank, borrowing for general government purposes (governments at federal, state and local levels plus statutory authorities), and that for public enterprise. The first and second categories are combined as 'official' borrowing, and the third

is included with private sector borrowing within 'non-official' borrowing. (Reserve Bank activities, fundamentally concerned with currency intervention, can be ignored for the purposes of these calculations).

General Government net debt increased from near zero in 1980-81 to almost $5.6bn in 1986-87, falling away to $2.7bn in 1987-88. The current financial year will see a marked drop in General Government debt. This drop is linked to Treasurer Keating's turn around in the Federal budget from deficit to surplus and restricted borrowing by State governments. It is also due to a conscious move by the authorities to fund more government debt domestically.

What is the role of the public sector in the increase in indebtedness? A change in emphasis is necessary to bring out this role. The above figures are net of investment 'inflows' and investment 'outflows'. Because the sum of public enterprise and General Government investment abroad is trivial, only investment inflows will be considered for comparison. Thus we can get an indication of the percentage of *additional* foreign investment in Australia due to the public sector (General Government plus public enterprises, omitting Reserve Bank activities). Table 1 summarises this information for selected years.

Table 1
Capital Account - Foreign Investment in Australia
(selected years: ABS.5302)
[$m.]

	General Government	Non-Official Sector (public enterprise in brackets)	Total	Public Sector/ Total:- %
1980-81	1	6140 (547)	6141	9%
1984-85	4084	10736 (3118)	14820	49%
1986-87	6135	15625 (1)	21760	28%
1987-88	2330	16396 (4050)	18726	34%

The breakdown for *total* foreign investment in Australia is as follows. At June 1981, the public sector component was $7bn (General Government $5bn; public enterprise $2bn) of total foreign investment of $47bn, or 15%. At June 1987, the comparable figures were $48bn ($30bn; $18bn) of a total of $174bn, or 28%.[4]

How does the income payable from this capital inflow divide between private and public sectors? If we look merely at the debit side, total income debits were $3.7bn in 1980-81, increasing to $13.9bn in 1987-88. The public sector component of this was $0.6bn in 1980-81 (16% of total income payable), increasing to $5.1bn (36%) in 1987-88. The percentage contribution of the public sector in the last two years was exceptionally high and should decline as government debt falls away due to Keating's austerity measures.

Several points are relevant. The public sector's contribution to total foreign investment and its servicing costs is not insignificant. However, it is a minority of total investment, and it is misleading to place sole responsibility for an increase in foreign indebtedness on public sector borrowing. Indeed, it is bizarre to regard total foreign investment as 'owed' by the Australian people as a whole, regardless of whether that equity or debt is publicly or privately incurred.

The absurdity of this presumption is reflected in recent transport developments. In the current ideological climate, the public railway system, already heavily indebted, is unable to pursue reconstruction assertively. In particular, debt raising by public authorities has become a political 'no-no'. Into this breech steps a private consortium with a proposal for the Very Fast Train between Melbourne and Sydney. If this proposal goes ahead, at least $4bn will be borrowed by the consortium, mostly from overseas, adding significantly to the overseas debt. The returns derived from the borrowing will be privately appropriated, but the resulting interest payments and debt will be interpreted as a general laxity of the Australian economy. This will maintain pressure on governments, both

4 ABS, Cat.5305, Table 4.

federal and state, for further fiscal austerity. Public debt and expenditure is thus reduced to make way for private debt. Propaganda that government 'crowds out' private sector has facilitated this shift. The crowding-out thesis was first propounded with reference to interest rates - that is, government borrowing pushes up interest rates. It has now been subtly altered to refer to the exchange rate, with the presumption that government borrowing blows out the deficit and threatens the exchange rate.

The *causes* of increased public sector borrowing deserve greater examination, as a means of both understanding the present structure of debt and of controlling the size of debt in the near future. The statistical picture is clear. Public enterprise borrowing took off in 1981-82, dropped between 1985-87, and increased again in 1987-88. General Government borrowing was high for the three-year period 1984-85 to 1986-87, declining dramatically in 1987-88.

What is the explanation for this borrowing 'blowout'? An adequate explanation is yet to be written, but the proximate origins have to be found in the politico-economic conditions of the late-1970s. The Fraser Government was pursuing a restrictive monetary policy which generated relatively high interest rates by international standards. At the same time the Government looked favourably on capital inflow. It also gave the green light to the states to borrow heavily to help finance the infrastructure for a range of resources projects. State public enterprises, especially the electricity commissions, were turning to borrowing to finance their operations and expansions, relying less on income. The Fraser Government then turned to a 'pump-priming' budget in 1982-83, augmented by expenditures associated with a severe drought. This blew out general government borrowing at the federal level, most of which was financed overseas. Finally, the dollar devaluation after 1984 increased dramatically the real cost of debt repayment and of debt servicing (most borrowing was denominated in other currencies).

In sum, the escalating debt was the product of a complex combination of elements, linked both to contemporary events in the global capitalist economy and to the particular 'policy structures' within Australian capitalism. Of the latter, significant aspects have been the perennial

reliance on restrictive monetary policy and the subsequent high interest rate structure domestically; the sanguine attitude to foreign investment; the dependence on un-coordinated state government activity for industrial development; and the abnormal power of the energy utilities to dictate the form of development. This is Australian capitalism at work - pragmatic, uncoordinated, and relatively passive regarding international developments. It has nothing to do with an innate tendency to overspending on the part of 'big government', and it certainly cannot be explained by reference to any 'crowding out' argument.

Trade and Income Flows: aggregate or specific imbalances?

So far, income and capital flows have been discussed only at the aggregate level. This is the level at which policy options are typically discussed, as noted above. Behind the aggregates, the *structure* of trade and the trading relationships with *particular* countries deserves more attention. The structure of Australia's trade is a significant ingredient underlying the weakness in the current account.[5]

First, we can examine the commodity composition of trade. In 1986-87, Australia had surpluses of $6.3bn on food, $8.9bn on materials (wool, iron ore), and $5.6bn on fuels (coal, petroleum, gas). By contrast, there were deficits of $2.6bn on chemicals, $6.6bn on manufactures (in spite of a $2bn surplus on iron and steel), and a staggering $12.8bn on machinery and transport equipment.[6] This structure of trade is characteristic of what is often called 'semi-peripheral' economies. There is a heavy dependence on primary and resource-based exports, with higher value-added com-

5 A comprehensive study of the structure of trade was done by the research division of the Department of Trade (1985). The research division was cynically abolished with the amalgamation of the Departments of Foreign Affairs and of Trade.

6 See ABS, Cat.5410, 1986-87, Table 15.

modities concentrated in the pattern of imports. What changes have occurred in this pattern in the 1980s? Table 2 compares the figures for these key general categories with figures for 1980-81.

Table 2
Commodity Composition of Trade (ABS.5410)
Surplus/Deficit on Trade in Specific Commodities - $bn

	1980-81	1986-87
Food	+ 5.4	+ 6.3
Crude Materials	+ 5.0	+ 8.9
Fuels	- 0.2	+ 5.6
Chemicals	- 1.2	- 2.8
Manufactures	- 3.1	- 6.6
Machinery & Transport Equipt	- 6.0	-12.8
Balance of Merchandise Trade	+ 0.2	- 1.2

During that six-ear period, GDP increased by 88% in nominal terms, total exports increased by the same amount, and total imports by 95% (in money terms, unadjusted for inflation). The commodity-specific figures show that a wide range of 'value-added' imports had increased faster than the growth in GDP and in exports of food and materials. Coal and wool provided the fastest growing exports during the period. Several specific items of trade deserve mention. It is noteworthy that Australia exported $1.6bn and $2.4bn of petroleum in the three years to 1986-87, a significant percentage of which goes to the US. This is a curious phenomenon, given the substantial oil reserves of the US, and the meagre reserves in Bass Strait. Does the dominant role of the US corporation EXXON in Bass Strait have anything to do with this curiosity? Also noteworthy is a galloping deficit of over $2bn in 'office machines and data processing equipment'. This is accompanied by a substantial deficit of almost $1bn in paper and paper products, a significant component of which is 'quality' paper products. The information-processing revolution has thus made a

key contribution to the merchandise trade deficit.[7] Finally, the peripheral position of Australia in cultural matters is reflected in a net deficit of $0.4bn on the importation of books.

Second, we can examine the country composition of trade. Australia has persistently run substantial deficits with most of the 'advanced' countries, due to import dependence on manufactures and machinery. In addition, British and Japanese shipowners have drained off the bulk of a $2-3bn shipping deficit. This has been partially offset within the trade balance by running a trade surplus of two kinds. The first is with Japan and the 'Centrally Planned Economies' (China, Eastern bloc), predictably based on wheat, meat, wool, coal, and iron ore. The second (and less significant) is due to a dominant relationship with some neighbours (NZ, PNG, Fiji) with a full range of exports including machinery and manufactures.

Australia's most 'dependent' relationships are with the US and the UK. In 1985-86, the net deficit with the US and the UK (on trade and non-official investment income) totalled $12.2bn, compared to a total deficit on these items of $14.5bn. Australia's most unequal commercial relations are with the countries with whom it has shared such 'warm ' political relationships over the years. Maintaining civilisation and democracy in the Antipodes doesn't come cheaply!

However, a dramatic transformation has upset this 'neo-colonial' balance. A significant change has occurred in the bilateral relationship with Japan. This relationship has moved from substantial surplus in 1980-81

7 This particular contribution to the deficit embodies genuine dilemmas regarding appropriate counter-strategies. On the one hand, a conservative strategy might reasonably involve substantial import substitution through expanded domestic production of value-added paper products. A more radical strategy would involve concern for resource conservation - at the least, more efficient paper product use and recycling; more fundamentally, questioning the institutions and culture which wantonly consume these resources in such vast quantities. A cogent representation of the latter position has been made by the Democrat Senator J.R. Coulter, Senate Standing Committee on Industry, Science and Technology (1988), Minority Report.

($1250m) to a substantial deficit in 1985-86 (-$610m), the latest year for which this detailed information is currently available. This turnaround occurred through a major increase in deficit on services trade (mostly due to a $500m net deficit in freight shipping costs), and a massive rise in net income payable, rising from $230m to $1650m. There has also been an increase in the net deficit on current account with ASEAN countries (from zero to $450m), due to a dramatic increase in income payable (from a negligible level to $700m) and to an increase in debits on services trade.[8]

This change indicates the particular significance of increased investment by Japan-based capital in Australia in the 1980s. There has also been a qualitative transformation of the nature of Japanese investment. Until 1984-85, the bulk of Japanese investment was of a portfolio nature. An increasing percentage of this investment was devoted to general government debt, thus moving into the field previously dominated by UK-and US- based capital. Recently, investment has been increasingly of a direct nature, especially centred on the finance and property sectors and, to a lesser extent, on manufacturing. Total Japan-based investment in Australia has increased fourfold, from $5.4bn in June 1982, to $21.3bn in June 1987. This places Japanese investment third behind US-based capital (40.5bn) and UK-based capital ($37bn) as at June 1987.[9]

Economic Growth and Import Penetration

As the policy-makers lack the willingness to engage in assertive structural intervention, the rate of aggregate expansion is constrained by the extent to which increased activity increases imports. The combined aims of substantial economic growth and balance of payments stability are thus seemingly incompatible. This is a problem which has plagued the British economy in the post-1945 period, and the pragmatic responses by successive governments became known as 'stop-go' policy. In Australia, the

8 ABS, Cat.5303, 1985-86, Table 4.

9 ABS, Cat. 5305, 1986-87, Section 2.

difficulty of pursuing national economic growth by purely macro-economic policies without blowing out the trade deficit is directly linked to the significance of capital goods and intermediate inputs amongst imports. Increased domestic activity increases the demand for capital goods, a wide range of which are presently purchased from overseas (for example, information processing equipment as mentioned above).

In official statistics, imports are classified into *exogenous* and *endogenous* goods. The former are 'lumpy' goods (like aircraft), not strictly linked to the level of economic activity and often subject to government arrangements. Endogenous imports are assumed to be closely linked to the level of economic activity, and are divided into consumption goods, capital goods and 'other' goods (mostly intermediate goods for industrial production). In the period 1980-81 to 1987-88, the proportion of endogenous imports comprising consumption, capital and 'other' goods exhibited a relative constancy, being roughly in the ratio 25:25:50. Thus capital and intermediate goods dominate imports, varying between 73-75% of the total during this period.[10] Moreover, the percentage of fixed investment supplied by imported capital goods is high (around 18-30% over the last decade), compared to the percentage of consumption goods supplied by imports (around 5-7%).[11]

Is this composition of trade compatible with current government trade policies? Current official opinion can be gleaned from the budget statement, written jointly by the Departments of Treasury and Finance, accompanying the presentation of the annual federal budget.[12] Treasury/Finance had hoped that the 1985-86 devaluation of the Australian dollar would generate both expanded exports and import substitution. Devaluation is supposed to (eventually) make exports relative-

10 ABS, Cat.5303, 1985-86, Table 7: Cat.5302, June Qr.1988, Table 7. These percentages were not dramatically different in real terms, after adjusting for price movements.

11 *Budget Paper No.1, 1988-89*, p.38.

12 "The Budget and the Economy", in *Budget Paper No.1, 1988-89.*

ly cheaper and imports relatively more expensive via automatic market forces - the so-called 'J-curve'. In fact, exports *have* expanded relative to Gross Domestic Product. But imports shot up last year by 10%, confounding Treasury expectations.

However, Treasury's optimism remains unbounded. Its defense of the J curve has resorted to sophistry, claiming that increased import penetration is universal and reflects an increased integration of the global economy. Moreover, Treasury accepts an even greater dependence on capital goods imports in the future.[13] Treasury's hopes remain founded on an unparalleled expansion of exports to finance the expanded import dependence. This unlikely outcome rests on a reinforced reliance on 'traditional' commodities currently dominating exports, supplemented by whatever commodities and services can thrive in a deregulated environment (albeit one throttled by high interest rates). But the markets and prices of Australia's traditional exports are notoriously fickle. Recent adverse developments have included the reduced price of gold, running contrary to untrammelled optimism for this commodity; and a dramatic downturn in wheat purchases by the USSR, previously buoyed by a run of poor harvests.

Overall, the structural transformations wrenching the global economy are incapable of being fully accommodated by the favoured policy options - the macroeconomic devices of devaluations, multilateral jaw-boning and wage restraint, coupled with pervasive deregulation. By contrast, industry and product-specific trade policies are the workhorses by which a yawn-

13 *ibid.*, p.38ff.

ing current account deficit could be redressed. Such policies would lay the basis for a goal-directed import substitution and the export of specific goods to specific countries. All of this requires a re-oriented policy emphasis and a different bureaucratic hierarchy in Canberra.[14]

Meanwhile, fiscal austerity, deflation, and pressure for wage restraint can be expected into the indefinite future because 'market' forces have yet to respond appropriately. Ignorance and prejudice abound. This is not merely a matter of the Government not pursuing progressive policies. It is rather that its policies are not even intelligently conservative.

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14 A number of reports from various advisory committees reflect the ambivalence which pervades contemporary industry policy in Australia. On the one hand, they display an explicit acknowledgement of the necessity of formal industry policy. On the other hand, they are constrained in their analyses and recommendations by the dominant vision which insists that such policies are contrary to the imperatives of the market mechanism. See for example, (Ferris) Report of the National Export Marketing Strategy Panel (1985); and Senate Standing Committee on Industry, Science and Technology (1988).