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PROTECTION, INDUSTRY POLICY AND ECONOMIC GROWTH

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later expansion based on the domestic market runs up against the constraining growth rate of that market.

Furthermore involvement in export markets has a beneficial effect on the efficiency and competitiveness of firms, and products designed to compete on export markets will almost certainly beat import competition at home, whereas the reverse is not always true.

As exhortations to export, made since the early 1970s, have been demonstrably ineffective, and for the reasons advanced above, incentives for exporting should now be introduced notwithstanding the GATT code provisions.

3.4 Principal Conclusions

The principal conclusions of the paper are:

1. The balance of payments is a major constraint on a sustained faster rate of economic growth.

2. This is because of structural weaknesses in our economy- particularly our reliance on exports of raw materials and deficiencies in manufacturing.

3. To overcome these structural weaknesses, new directions in national industry policy already commenced will need to be strengthened to promote increased exports of manufactures and services. Protection is not relevant nor necessary for the required new industry policy.

4. Principal measures of that new industry policy include facilitative policies for enhancing competitive strengths, specific sectoral plans in certain cases, and general policies, particularly the exchange rate, incomes policy, the taxation system and policies for labour market flexibility.

5. Integration of longer term (industry) policies and shorter term (macroeconomic) policies will be difficult but necessary, and the prospects for faster economic growth over the next few years appear poor, unless transitional policies can be developed to encourage investment in new capacity for export markets.

THE CASE FOR FREE TRADE AND ECONOMIC GROWTH*

By Wolfgang Kasper

I Australia's Growth Performance is far Below Potential

It is by now well-known that Australian economic growth has lagged behind that of other high income countries, let alone the new industrial countries in our wider neighbourhood (Figure 1). If these trends continue, Australians are likely, by the year 2000, to have a living standard below that of Singaporean or Malaysian citizens. This prospect raises important questions not only of economic policy, but of wider national strategy.

When economists try to explain why economic growth is rapid or slow, they normally analyse the supply of production factors which are used to generate a consistent rise in productivity and living standards, i.e. economic growth. Thus, economists tend to look at a nation's potential supply of labour and skills, capital, technology, and natural resources. Yet when one considers these production factors with regard to the Australian economy, one cannot find bottlenecks that would explain the Australian economy's poor growth performance:

- Labour-force growth has been relatively rapid, both from natural population growth and immigration. In contrast to many Northern-hemisphere industrial countries, Australians can expect the fastest population increases in the next decades to be among working-age people. The Australian economy will certainly not be weighed down by a "pension burden" to the extent of the European countries or Japan. This has important beneficial implications for capital formation and growth. And Australians can expect for some time to have a better average skill endowment than the new industrial countries of Asia.

- Australia is a capital-rich country with a savings rate that is higher than that of many other OECD countries. In addition, we have access to world capital markets thanks to our political stability and development potential. And we can greatly benefit from investments by internationally mobile enterprise - if only we want to.[1]

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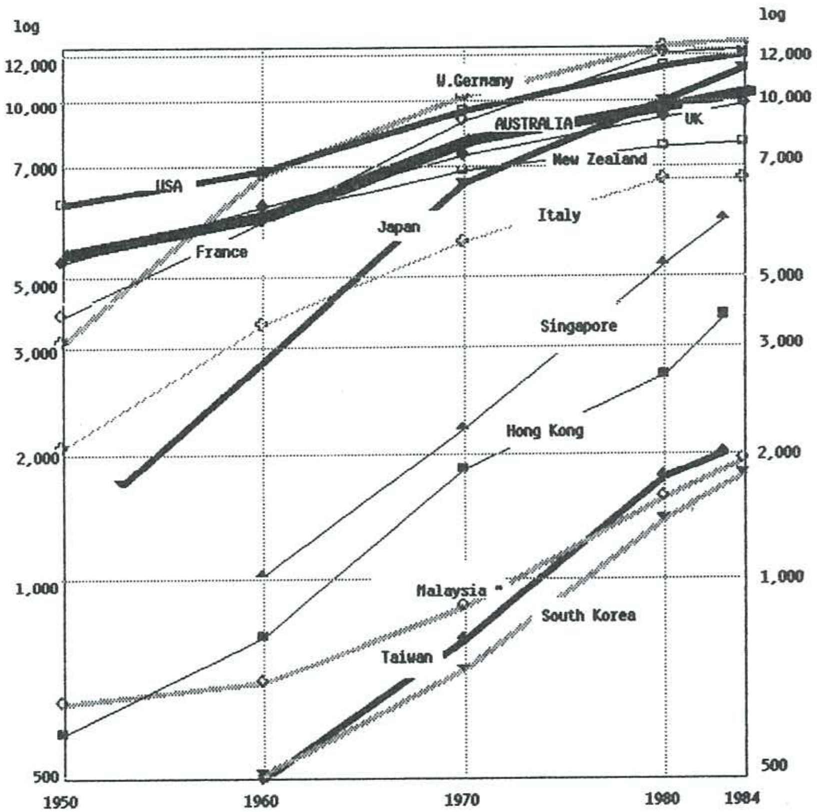
FIGURE 1

ECONOMIC GROWTH: AN INTERNATIONAL COMPARISON

- per capita GDP at constant 1980 prices and exchange rates, in US-$ -



*West Malaysia before 1970

Sources: IMF. International Financial Statistics, *passim;* Taiwan Statistical Data Book.

- Australians have access to all the technological resources that innovators in other affluent countries have created. Our research infrastructure and the knowledge of the English language strengthen Australia's access to the world's technology potential.

- With regard to natural resources (minerals, land, space, climate) Australians are better endowed, on a per-capita basis,[2] than the citizens of virtually any other country on earth.

We have to conclude that traditional factors cannot explain the poor economic growth record of the Australian economy. On the contrary, this country is endowed with a singularly rich array of natural and man-made resources. One should indeed expect such a relatively young country - that is located in the most dynamic region on earth, the West Pacific - to manage fairly high economic growth.

II Poor Economic Growth is Caused by a Lack of Competitiveness and Flexibility

The vast gap between economic potential and performance in Australia can, however, be explained by microeconomic factors. After all, economic growth does not happen spontaneously simply because the necessary production factors are present. These production factors have to be combined by entrepreneurs to create wealth; and production structures have to be adjusted continually to exploit new production and market opportunities. Production systems that fail to adjust to new opportunities will not achieve much economic growth.

The unprecedented post-war record of economic growth in the industrial and the developing countries owes much to change and to flexible adjustment. Flexible adjustments and factor mobility from less productive to more productive ways of doing things make up a considerable part of what has become known as "third-factor growth".[3] If one analyses Australia's post-war growth rate, one finds that our low growth performance was not caused by low capital formation or insufficient work effort but by an insufficient "third factor" contribution to growth, which fell far short of that in Europe or Japan.[4]

When one asks why there was relatively little structural adjustment, innovation and "third factor growth" in Australia, one can quickly identify relevant aspects in which Australia differed from the faster growing economies overseas:

- Different from most European countries and Japan and also different from most new industrial countries in Asia, Australia did not go through the upheaval of war and the consequent disturbances to social structures. These upheavals made people insecure, but also motivated them to gain some security through material achievement. The upheavals of the war also made people tolerant of change. The subsequent economic successes taught them that economic change can be exhilarating and beneficial. Many Australians - especially migrants - had similar experiences, but they lived in a country whose post-war economic policy was to conserve war-time industrial structures and to resist change.

- Different from the overseas countries that embarked on a course of trade liberalisation, Australian economic policy aimed at protection from international competition, similar to New Zealand or Argentina - and with similar results. Trade protection was aimed at job creation, irrespective of cost competitiveness. In the post-war period, it was increasingly administered with concepts of social equity in mind. Those who could demonstrate a need for more tariff protection, got it. Successive post-war governments thus set up a structure of incentives that strongly interfered with international market signals and rewarded those industries that were comparatively least efficient and those workers that were internationally least competitive.

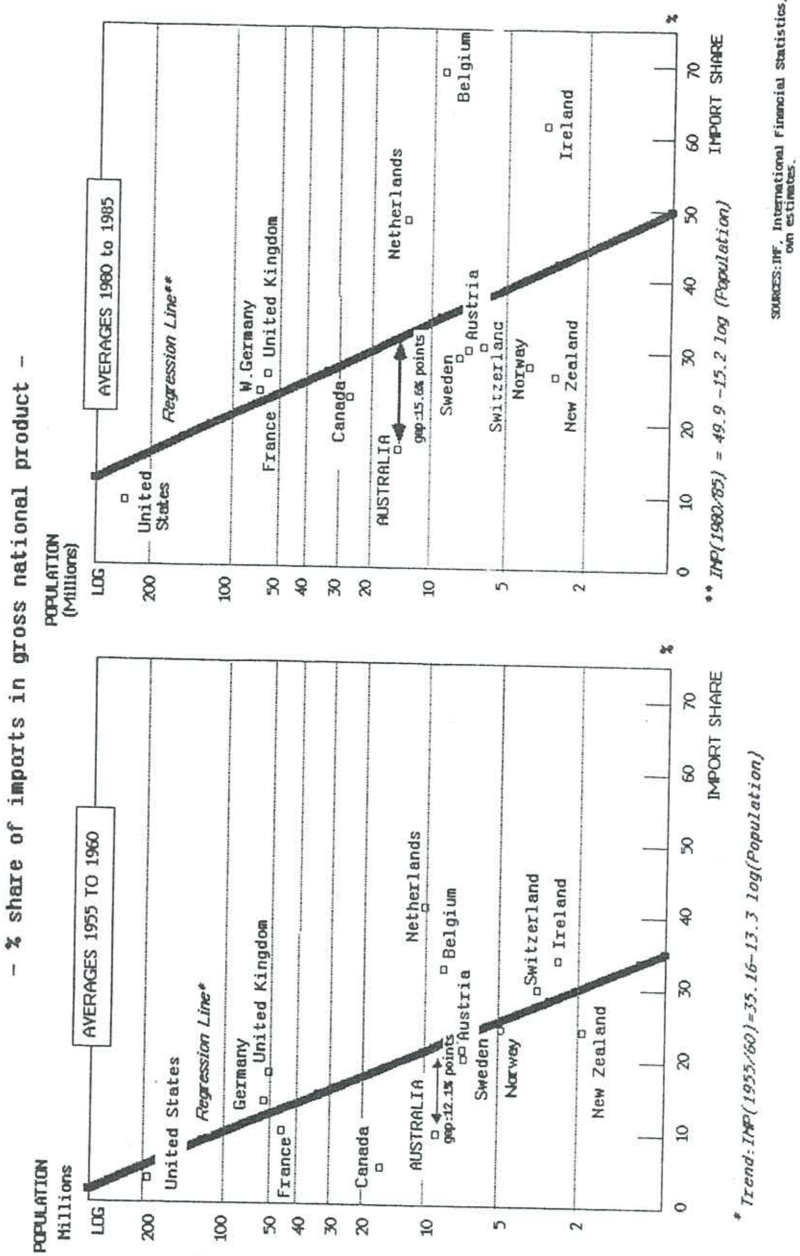
- The Australian economy is much less integrated with the world economy than one would expect for a country of Australia's size.[5] The degree of international integration is best measured by the share of import expenditure in gross national spending. Figure 2 shows that Australia's import share falls far short of what is internationally "normal", which can be expressed by a regression line of import shares against population. Indeed, the gap has widened between the late 1950s and the early 1980s, in contrast to virtually all other developed nations. Australia's import share is now 16.3 per cent against an expected figure of 31.9 per cent (on the regression line).

Australia's industry protection policy, whose roots go back to the mid 19th Century,[6] initially created profitable domestic markets which permitted the creation of diversified industry structures. Rapid market growth thanks to immigration further stimulated industrial growth in the post-war period. Manufacturing industries were therefore the "engine" that pulled Australia's post-war economic growth.

FIGURE 2

INTERNATIONAL INTEGRATION

- % share of imports in gross national product -



* Trend: IMP(1955/60)=35.16-13.3 log(Population)

** IMP(1980/85) = 49.9 -15.2 log (Population)

SOURCES: IMF, International Financial Statistics, own estimates.

The happy experiences of the late 1940s and 1950s, which many industry spokesmen want to recreate by advocating more protection in the 1980s, disguised the germs of self destruction built into that the economic strategy of the Menzies/McEwen era. Australia was not exception to the generally observed rule that a country cannot for long disregard the economic principles of specialisation and comparative advantage. Experience has shown time and again that a country can only stimulate diversified industrial growth for a decade or two by offering tariff protection irrespective of the international cost competitiveness. After that, the activities that grow behind the artificial protection of a tariff wall have reached the limits of domestic markets and cannot expand into exports because of the high cost of protected production.

III Protection Creates High Costs and Slow Growth

In the long run, protection policies create high costs and economic stagnation for a number of powerful reasons. The artificial stimulus of protection initially offers profit opportunities by allowing producers to charge higher prices than prevail in the world market. However, protection also ensures that there are fewer competitive pressures to reduce costs, so that - gradually - the tariff boost to profits is eroded by higher costs than prevail in world markets. This inevitable "cost creep" behind tariff walls is due to a number of factors:

- Diseconomies of small-scale production and artificial diversification in a market of limited size establish high production cost levels and reduce the scope for cost cutting.

- Cost prices (like wages) are higher due to the acceptance of the principle that the tariff creates a better "capacity to pay" in protected industries.

- Process innovation, which might cut cost, is slow because there is little effective competition that exerts pressures for cost control.

- Product innovation is retarded, because the competitive rivalry for market shares is mitigated behind a protection wall. Often suppliers are allowed to cartellise which may help to increase technical efficiency, but certainly reduces long-term economic efficiency.

Economies of scale and the technical and management changes necessary to realise scale economies have been key sources of industry growth in the open economies overseas. Thanks largely

to the process of world-market integration and the adoption of large-scale US production and distribution techniques, the optimum scale of production has greatly increased in many industrial processes. More recently, computer-aided production technology has begun to replace mechanical or manual production controls. This has opened new opportunities to speed up production processes, many of which are raising the optimum-cost scale of production to even bigger production runs.[7] Firms that can produce competitively for the world market can utilise this new technology efficiently, lower their costs and create secure jobs that pay high incomes. Greater efficiency of mass production was the most important result of international economic integration among the OECD countries in the 1950s and 1960s and in the openly trading new industrial countries since the 1960s. Trade mobilises productivity growth through scale economies.

Productivity and income growth is also greatly promoted by other dynamic effects of international competition. Dynamic effects like "learning by doing" (producers with high turnover benefit from learning curve experiences), faster capital turnover and more rapid innovation due to international specialisation have been the crucial elements in many industrial success stories overseas. These dynamic effects would not have been set in motion had these economies not opened up to international trade. After all, one of the key functions of international trade has always been that it transfers useful ideas. Many Australian firms, which are confined to a market the size of Holland (only 16 million consumers), have missed out on many of these sources of growth because of protection and the inward-looking attitudes which are promoted by protection.

Trade protection often amounts to protection from the incentive to undertake useful innovation. To appreciate how international trade conveys new, useful ideas around the world, one only has to compare free-trading Hong Kong with protected Shanghai. What matters for growing prosperity is not only the innovation of final products, but also process innovation and innovation of intermediate products. Countries with open access to the wide variety of intermediate inputs that are available in world markets can develop better and cheaper products, whereas producers in closed economies frequently bear the costs for the protection of other industries. Thus, many products that could be made from protected steel in Australia are not competitive in domestic and international markets, because the tariff on steel raises the cost of steel or because there are not as many specialised steel products readily available as in the open world market. As a result, Australian steel users may have to substitute for the best possible steel component a somewhat less appropriate component which happens to be available here. Thus, they may only be able to offer a product of lesser quality.

The cost level is pushed up by long-standing tariff or quota protection also because the artificial profits which protection creates tend to be captured sooner or later by the production factor with the most inelastic supply. This induces labour to organise to make labour supply inelastic. Whilst new tariffs tend to boost profits, old tariffs invariably raise wage rates and lead to rigid labour behaviour. It is therefore no coincidence that all countries with long-standing trade protection have well-organised, aggressive trade unions which have appropriated the tariff margin (Australia, New Zealand, Argentina). This contrasts with openly competitive economies where employers and employees share the feeling that they "sit in the same boat" and should stick together to cope with the exposure to world market competition. In German or Japanese firms, for example, appeals to unions for wage restraint or an end to a strike are frequently made with the argument that export orders are poor or that international cost competitiveness is being lost. Such appeals tend to carry much weight with the workforce and this leads to cooperation. By contrast, the protection of Australian product markets also foments and protects antagonistic industrial relations and - ultimately fruitless - redistribution battles. Instead of making employers and employees concentrate on the common interest of joint prosperity in a competitive world, protection policy has created conditions in which workers and employers can face each other before an arbitrator as if they were hostile parties in divorce proceedings. The posturing of opposed parties before an arbitrator contrasts with what is the normal condition in more openly competitive countries overseas, namely cooperation akin to a thriving family. It is no coincidence that the highly protected industries, like the metal industries, are normally the wage leaders which tend to open new rounds of wage explosions and subsequent job destruction.[8] Yet, few Australian industrialists realise that the tariff, which they favour, is the linchpin which supports antagonistic industrial relations, which they deplore. In reality, protection simply redistributes the ulcers from the sales manager to the labour manager.

Another costly effect of long-standing protection on industrial growth in Australia derives from the fact that successive governments have given high protection to labour-intensive, low-skill consumer-goods industries, but allowed capital goods in free of tariffs, often under by-law exemptions. As a result, Australian manufacturing has a lopsided structure with a rather big share of low-skill consumer goods and an abnormally small share of investment goods production.

Computerisation and other technological changes are now replacing many low-skill jobs in consumer-goods production by new equipment, both here and overseas. Thus, the highly protected textile, footwear, garment and car industries have shed workers in virtually all industrial countries. But in Australia- different from many more open economies - these job losses have not been offset by jobs in the industries making the now computer-aided investment goods. Australia's protection structure thus hinders industry from fully participating in the job-creation aspects of technological change; yet it exposes industry fully to the job-destruction aspects of technical change. The relentless shrinkage of the share of Australian manufacturing industry in domestic production from 28.8 per cent in 1960/61 to 17 per cent now and the job destruction through technical change thus have a lot to do with the distorting effects of protection.

We find ourselves increasingly in a situation where one man's tariff is another man's job. Of course, the men whom the tariff protects in a given industry are organised, concentrated, and prepared to press for higher protection should the need arise, whereas the men whose job the tariff prevents from being created normally do not even realise it. The political economy of old tariffs is thus based on the lobby which the tariff has created. This ensures the perpetuation of protection and turns "infant industries" into ailing senescent industries, more and more drug-dependent on further government "assistance".

Long-standing protection of industry from international competition thus locks industry into a high-cost, slow-innovation scenario in which everyone is worse off.

Tariffs create a social atmosphere in which high prices, lobbying and strike are rewarded to the detriment of innovation, risk-taking and expansion. This atmosphere makes for the selection of an inward-looking type of industry and labour leader, who seeks the security of the "club" and the cartel and shuns open competition, risk-taking and innovation. these leaders then lobby for (and normally obtain) a Mercantilist approach to industry policy, which is based on the consensus that nothing can be changed and that industry is inevitably locked into high costs and slow growth. The consensus easily evolves for bureaucratic regulation and guidance of industry.

The inefficiencies and high costs that protection promotes are not confined to the protected industries. Sooner or later, inefficient ways and unentrepreneurial attitudes radiate to industries that are not directly exposed to international competition, like many service industries. By contrast, economies in which industries and services are exposed to much international competition tend to have a higher general level of competitiveness because managers migrate from competitive manufacturing industries to purely domestic sectors and workers and unions never develop antagonistic habits. The beneficial effect of international competition thus spread by osmosis through the entire national economy.

One has to conclude that protection is a cost burden imposed on producers from which no one - neither the workers nor the capitalists - benefits in the long run. Lower productivity and protected inefficiencies keep the economic cake smaller than is necessary and force everyone to contend himself with a lesser piece of cake than would be available with free trade. The effort at redistribution of incomes by the tariff ends up with lesser incomes all around.

High costs gradually impede all domestic producers from being export competitive. It is no coincidence that the heavily protected Australian car and steel industries, which once used to be substantial exporters, have lost their international markets and that Australia has negligible manufactured exports.[9] It is also no coincidence that excessive, protection-supported cost levels in Argentina and many developing countries have gradually eliminated the export capacity of even the most competitive traditional exporters (normally the agricultural or mineral producers). The tariff-supported "cost creep" is the main explanation why Australia's world market share dropped from 3% of world exports in the early 1950s to 1.7 per cent by 1970 and less than 1.4 per cent in 1984.

IV The Defence Argument For The Tariff

One of the weightiest traditional reasons for protection has been the defence argument: National sovereignty and an industrial defence support system which makes an independent defence posture credible, are widely seen to depend on a diversified industrial base. Economic losses should be accepted, it is said, because a country as remote as Australia should be able to cater for its defence-logistics needs in the case of military conflict.

This argument carries particular weight amongst a generation of Australians who had to cope with the deprivations of long quasi-blockades during two world wars.[10] However, before accepting this argument, we have to make sure that we do not prepare to fight the last war. Industry protection only assists in maintaining a defence capability in the event of a long-lasting quasi-blockage of supply routes. A diversified

industrial base is of no use to defence if the next international conflict takes the form of a quick exchange of nuclear strikes or a gradual invasion of Asian boat people.

Two aspects have to be examined in this context, long-term defence needs and defence capability. The likelihood of international conflict and the need for the military defence of Australia is, in the longer run, probably increased by an economic policy that inhibits free competition in the rich Australian markets by the new industrial countries in our neighbourhood. Many leaders in business and politics in the new industrial countries of Asia are changing their perception of Australia because of Australia's selective trade controls. Many Asian leaders now believe that trade barriers are imposed by Australia whenever one of the Asian exporters is successful. Australia therefore no longer has the image in Asia of a generous, self-reliant, non-colonial nation that lives in a rich developing country. Australia's predominant image among the Asian elites seems now to be mulch more that of a petty, selfish trade interventionist. Such changed perceptions can easily - a generation later - lead to confrontations, especially with dynamically growing economies which suffer from the centrifugal stresses of rapid industrialisation, urbanisation and social transformation. A bit more open trade now could avoid a defence need later-on.

The long-term defence capability of a nation is first and foremost related to its gross national product. Therefore, the growth-retarding effects of the tariff should fill far-sighted Australian defence planners with alarm. Economically stagnant countries have - in the long run - always had to accept military interference by their economically more dynamic neighbours.

Defence capability also depends on the structure of industry and the technical skills it employs. Thus, the metals and electronics sectors matter most to modern defence capability. These would be the very industries and skills that can be expected to flourish in Australia under free trade.[11] However, the highest rates of protection have been given to low-skill industries - like textiles, garments, footwear - that are of little relevance to defence capability whereas technology-intensive industries have little protection. It seems interesting in this context to contrast Australia with Sweden whose manufacturing sector grew up without protection and which has a resource endowment in metals not dissimilar to Australia. Sweden would seem to have a much better industrial defence capability than Australia whose industry structure has been twisted towards consumer goods and whose workforce has become strike-prone partly due to the lack of pressure from international competition.

Finally, it should be taken into account that no country the size of Australia (15 million inhabitants) can maintain an industrial base to equip a modern defence force. The full range of basic metallurgical and machining skills necessary to manufacture (not just to assemble) a jet engine, a simple trainer aircraft, a submarine or even to develop a modern cross-country vehicle are simply no longer available in Australia. Technological change over the past 30 years has left Australia no option but to depend on imports of defence equipment. Illusions harking back to the mobilisation effort of the Second World War and trust in protectionism of basic industry structures in the hope that industry can produce major weapons systems in an emergency only hamper a rational concentration of effort and resources on developing crucial repair and maintenance capabilities, which is the industry support that defence really needs.

V The "New" Protectionism

One frequent argument for protection is that nowadays virtually all nations protect their industries from international competition. Protection has increased in various guises since the end of fast growth and high employment in the early 1970s. Yet, the preceding argument should have made it clear that the main losers from the Australian tariff have been the Australians. Trade liberalisation is in the best interest of Australian economic welfare and should not be treated as a sacrifice to benefit other countries.

It is indeed true that slow growth and rising unemployment have given rise to new protective measures around the world. Thus, a rapidly rising share of East Asian manufactured exports is subjected to new restrictions by OECD countries. In 1980, 15 per cent of the manufactured exports of Japan, Hong Kong, Singapore, Korea and Taiwan had to face trade restrictions by OECD countries. By 1983, the percentage had risen to no less than 32 per cent. These measures prevent economic recovery both in the protected nations and in other countries. Thus, the Common Agricultural Policy of the European Economic Community has not only lead to grave financial problems for the Community and to confrontation with EEC farmers but has also hurt third-country producers like Australian or US farmers. The same can be said of the successive multi-fibre agreements that restrict international textile trade. These agreements have disturbed trade flows, raised consumer prices (often at the expense of the poorest families) and have not managed to sustain employment. A recent OECD study of the new protectionism concluded that protection shored up some jobs but imposed a hidden tax on all other economic activities thus destroying jobs in many industries.[12] The new protectionism of the 1980s delays much needed structural adjustment, consequently, the structural adjustment problem will be greater at a later stage.

The arguments for artificially delaying structural adjustment by retaining or increasing protection are of course well-known to Australians. Thus, the Crawford Study Group on Structural Adjustment argued in 1979 that a transition to freer international trade would be beneficial and would help to return Australia to high levels of employment, but that trade should be liberalised only when unemployment had dropped below 5 per cent.[13] This of course amounts to the recommendation that the patient should only take the medicine after he has recovered. The deepening industrial malaise since the publication of that report should by now have made it clear that this recommendation aimed at an unrealistic illusion: higher levels of employment in Australia will only be achieved if labour costs are reduced in a process of all-out restructuring, specialisation and accompanying productivity increase driven by a gradual move to free trade. Of all the sources of employment growth, none is more promising than the productivity increase due to trade specialisation.

In more recent years, a new element of "neo-protectionism" has crept into the Australian discussion as a by-product of the new "consensus politics": Industry policy relies increasingly on coordination by the Australian Manufacturing Council and many industry councils in which unions and big firms meet and consult with government on how the lot of a particular industry could be improved. It is virtually impossible for the Good and the Great who represent the interests of a given industry, to agree on a plan that is not to the detriment of third parties which are not represented on the industry council. Given Australia's tradition of protection for organised industries, the industry council structure has strengthened autarchic policies despite frequent lip-service to the ideals of free trade. Australia's centrally guided industry policy follows in the direction of all corporatist policy which has always been biased in favour of protection (and against fast growth thanks to competition and elastic supply).

VI A Programme for Free Trade and Growth

The deepening industrial malaise, which is a direct consequence of interventionist trade policies and the high cost levels that they have promoted, can only be cured if Australia abandons the failed strategy of the past. The economic problems of the past ten years, especially the doubling of the unemployment rate from 4 to 8 per cent, can only be remedied by a fundamentally market-, competition- and productivity-oriented trade strategy. The country can ill afford a continuing drift into ever higher costs and more job destruction. The primary sector, whilst crucial to the economic well-being of Australia, cannot alone create the necessary jobs for our children or pay our pensions. New industrial expansion (to process primary products, to compete in the dynamic West Pacific area and to gain productivity from international specialisation) will be needed if we are to return to high levels of employment. This seems all the more urgent as job creation in Australia's already oversized service sector is being curbed by the introduction of labour-saving microchip technology. In such a strategy to raise productivity, the liberalisation of international trade and capital flows will have to play the key role.

Experience in post-war Europe and many thriving new industrial countries has shown that trade liberalisation has to be expected by producers, and hence has to be pre-announced. Only then will it generate the constructive responses of producers that are desired. Surprise, stepwise tariff cuts like the Whitlam tariff reductions of 1973 are bound to be disruptive. After all, industrial structures, market relationships, production techniques and skill use are conditions that can only be changed slowly. On the supply side of the economy, only steady, predictable policies will lead to success.

A tariff cut will also have to be across the board so the industries, which use high-cost, protected inputs and sell high-price, protected output, receive the beneficial effects of liberalisation at the same time as they are exposed to greater competitive market pressure. Relative prices should be distorted as little as possible by the move towards genuine world market prices, so that producers do not respond to wrong market signals by investing into production capacities that cannot be sustained in the long run.

A clear commitment of the Australian government to an across-the-board, gradual wind-down of all quota and tariff protection over five years in ten equal semi-annual steps would be a clarion call for industry to rationalise and restructure. As has been invariably shown overseas and as financial deregulation has just demonstrated in Australia, such a signal mobilises hidden productivity reserves. Scale economies, spontaneous international cooperation and so-far-unused production factors would put Australian industry on a path to rapid productivity growth and job creation and would make our supply system more elastic again. All of a sudden, Australian

manufacturers would discover that they can compete successfully with a slimmed-down product range on the Australian and on overseas markets, so that they can make profits from large production runs even if the mark-up on each unit of output is relatively small.

No one can of course precisely predict what industrial activities would flourish under free trade. This is a matter for decentralised search and discovery and test by market competition. However, it is likely that resource-intensive, skill-using, capital-intensive activities would flourish, often not the most high-technology activities - an area where there is fierce international competition from less lucky countries - but medium-technology activities.[14]

A gradual, across-the-board tariff cut might come under fire from entrenched and so far protected interest groups. It would therefore seem necessary to bind such tariff reductions with the General Agreement on Tariffs and Trade. A unilateral reduction of protection by Australia would fit nicely into proposals for action put forward by GATT.[15]

Some observers fear that a one-sided tariff reduction would lead to great trade deficits and further depreciations of the Australian currency. Such fears seem largely unfounded, because they are built on the wrong assumption that there will be no capital flows. But since much of the initial rise in imports could be automatically self-financed, because tariff cuts would open many new productivity and profit opportunities, and foreign investors would perceive Australia as a good country in which to invest. For this to happen, it would of course be necessary to extend the successful deregulation of financial markets to long-term investment and abolish the Foreign Investment Review Board.

To many observers such a clear break in Australia's trade and industry policy may seem unacceptably bold, but a continuation of the failed strategies of the past would seem to require even greater boldness. It is unacceptable to continue to promise our young generation rising unemployment, to envisage the long-run strategic-military consequences of a continued gradual slide down the income ladder and to drift deeper and deeper into regulation, lobbying and pressure group politics where well-connected and old-established lobby groups hold sway. Such a scenario, which we have rehearsed over the past decade and which would end in a disintegration of society, seem totally unattractive and unnecessary given Australia's excellent opportunities to compete internationally.

Yet a more prosperous, more challenging and more cheerful future will only be feasible if we remove the parasitic infestation of protectionism which has been stunting Australia's economic growth for so long.

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