Industry assistance in a ‘patchwork economy’*

The Commission’s remit has evolved considerably over the years, expanding beyond the traditional industry assistance domain of its predecessors, to encompass not only a wide range of other economic issues, but also key areas of social and environmental policy and regulation. If we have been able to make a useful contribution in these areas, this can be attributed, in large part, to what we have learned from business and community groups along the way. For the Commission, consultation is not a discretionary activity; it is integral to our business model.

The Australian Chamber of Commerce and Industry has been an important source of information and insight in many of the Commission’s public inquiries and studies. This reflects well on those involved in the organisation and their interaction with its membership base. But it may also result from the very breadth of that membership, comprising businesses of all sizes in all sectors of Australia’s economy. Such breadth could be expected to encourage the organisation to focus on the ‘big picture’ – on what matters for the generality of Australian business, rather than the diverse and sometimes conflicting concerns of particular constituents.

This perspective is aptly illustrated by the theme chosen by ACCI for its annual dinner: ‘prosperity through productivity’. It is a theme that recognises not only that prosperity matters to the well-being of society – something occasionally contested in public discussion – but also that how prosperous we become as a nation depends ultimately on how well we use our resources in the myriad of enterprises that make up our economy.

As Nobel Laureate Paul Krugman has famously put it, “productivity isn’t everything, but it in the long run it is *almost* everything.” In a sense that observation is not merely true, it is a truism. Rising per capita incomes in a country can only be achieved in two ways: by producing more per capita or by getting higher prices for what is produced.

The former route is generally the most enduring or dependable one. But it has been overshadowed somewhat in recent years by the dramatic rise in prices received for

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our mineral exports. The surge in Australia's terms of trade is estimated to have added some 15 per cent to our GDP. That is no mean achievement. It has also contributed to the resilience of Australia's economy since the advent of the global financial crisis. Nevertheless, it is important to remind ourselves that such good fortune cannot last forever, even for a 'Lucky Country'. And it is worth recalling that 80-90 per cent of the per capita income growth in Australia over the preceding five decades came from (labour) productivity growth. It is to productivity growth, therefore, that we must look if we are to secure further increases in living standards beyond the mining boom – and indeed, if we wish to maximise the benefits of the boom.

With this longer term productivity imperative in mind, the recent picture does not look too promising. While there are indeed reasons to be concerned, close analysis by Commission researchers suggests that at least some of the forces behind the marked productivity slump this century are likely to be temporary.

One significant contributor has been the mining boom itself. Rising export prices have provoked massive flows of new capital and labour into mining to exploit the prospect of higher profits – including by tapping lower grade ores – and this has been outstripping measured output growth. This input expansion, while so far 'unrequited' in physical output terms (reducing measured productivity) has nevertheless yielded rich financial rewards to mining companies, which is naturally their prime concern.

Notwithstanding the high degree of foreign ownership of these companies, it is estimated that over one-half of this income growth has flowed into the Australian economy. While non-traded activities and industries supplying the mining juggernaut have done well out of this, trade-exposed industries that are not in its aura have been forced to 'make way' by our rising dollar.

Thus, in the midst of plenty, there is some pain. Viewed dispassionately, this is integral to the adjustments needed for Australia to gain maximum benefit from the mining boom. However, most of those on the receiving end understandably don't see it that way. There have been strident calls for government to support industries under pressure, particularly manufacturing (but also tourism and education services). This, of course, is not an unprecedented phenomenon in Australia. However, it has found a degree of receptivity across the political spectrum that has not been seen for many years. Unchecked, it could pose a threat to the hard-won reforms that commenced in the 1980s, compromising Australia's productivity potential and the future prosperity that will depend on it.

So while the Productivity Commission spends more time these days on other policy matters, I'd like to take this opportunity tonight to revisit the question of what role industry assistance should play in our contemporary 'patchwork' economy.

I hasten to assure you that I am not going to say it should have no role at all! Rather, my message is that we need to tread warily on selective assistance schemes because of the risk of doing more harm than good to Australia's productivity and prosperity. By the same token, I believe there is scope for governments to do much more under the broader 'industry policy' banner. Unfortunately, political economy tends to favour the first course more than the second (which involves reform). But many of those approaches are no more suitable in today's circumstances than they were in the past.

Import replacement is a bad idea

At the top of the list of perennially bad policy measures are those that promote Australian industries by reducing imports. I am not just referring to tariffs and other barriers 'at the border', since their costs are now well recognised in Australia and few openly advocate a return to them.

The attractions of 'anti-dumping'

That said, there has been resurgent interest in the use of 'anti-dumping' duties as a WTO-sanctioned form of protection against 'unfair trade'. It is not commonly acknowledged, however, that the WTO's rules were devised primarily to discipline government's anti-dumping actions, not businesses choosing to sell their goods at lower prices overseas.

But public policy is on a hiding to nothing with this one. The very use of the term 'dumping' – coined initially, I suspect, by a linguistically gifted import competitor – connotes something unsavoury. And if it causes (or threatens) 'injury' to a local industry, then surely it must reduce Australia's prosperity?

In fact, shocking as it may sound, neither proposition holds true. Employing a less emotive term for a moment, there are many legitimate reasons, commercially and economically, why a firm might engage in 'differential export pricing.' There may be higher tariffs or less competition at home than abroad. The firm may have a surfeit of stocks with high holding costs. Or it may need to counter a lack of brand recognition when entering foreign markets. There is nothing inherently 'unfair' about any of these practices. Australian exporters commonly engage in them and have been encouraged to do so by government agencies.

The *least* likely reason for differential export pricing is 'predation' (driving out competitors in order to gain local monopoly power) given the existence of other world competitors and scope for new entry or re-entry. Yet this seems to be the main cause of its bad reputation.

In its recent report on anti-dumping, the Commission nevertheless recognised that notions of unfairness had become so entrenched that retaining some form of anti-dumping system was inevitable, and on balance may serve to prevent something worse (as is sometimes said of FIRB). We therefore opted simply to moderate its potential to impose costs on Australian industry and consumers by such means as limiting the scope for penalty duties to be applied in perpetuity, and enabling actions to be avoided where these would most clearly be counterproductive for our economy (such as where large costs would be imposed on downstream industries to little effect, or where a domestic supplier's market power would be significantly enhanced).

Most of the Commission's recommendations were accepted by the Government, but some of the more important ones were not, and ambiguities remain as to how much more restrictive the new regime will prove to be in practice. However, no such ambiguity is to be found in the Opposition's recently announced policy, which pushes the boundaries of allowable restrictions. Getting the right balance in anti-dumping policy between addressing perceptions of fairness and avoiding actions that would be costly domestically – and harmful to our bilateral relationships (including with China) – is a very difficult challenge for policy makers and always has been. Unfortunately the Opposition's policy falls well short of the balance required, and has now made harder the Government's own efforts to hold the line.

Local sourcing rules

A form of administered protection that operates well behind the border, and that has had a good run recently in Australia, involves requirements by governments for their own agencies or private firms to purchase goods and services from domestic sources. (I am not referring here to the more benign information and suasion campaigns such as the 'Australian Made' logo and Buy Australian). Unsurprisingly, the WTO has rules about this too. However Australia is one of few developed countries that is not a signatory to the 'procurement code'.

Like most WTO rules, although often seen by domestic parties as serving the interests of foreigners, the main beneficiaries are the very countries whose governments' actions are curtailed. Local content rules, to the extent that they are successful in diverting purchases from the lowest cost sources internationally, merely reduce a nation's purchasing power. While some local firms may do better,

others will do worse as their competitiveness is eroded. Productivity and prosperity are both impaired.

Admittedly, this kind of economy-wide logic gets little purchase in the electorate and the costs of such protection are much harder to discern than for tariffs. So, once again, the politics of good policy do not favour the faint-hearted. Nevertheless there has been considerable resistance to the most costly regulatory proposals so far. Even the initiative to ramp up conditionality requirements on large projects' access to tariff concessions – dubbed 'local content watch' by one wag – may not prove very costly, mainly because it is unlikely to distort purchasing decisions much. Large mining companies can handle red-tape more easily than smaller enterprises and most already make substantial purchases locally. Indeed, their very use of the tariff concession to date indicates that such imports (including of heavy machinery) have been officially recognised not to be available locally.

A legitimate rationale for such rules would require that there be 'information failure' or other possible sources of disadvantage experienced by local suppliers. However this is hard to sustain. If anything, local firms typically have significant advantages over foreigners, related to greater proximity and familiarity and fewer transaction risks. This is in fact the main rationale for the existence of Austrade and the support it provides to Australian firms seeking to sell in foreign markets. When large firms operating here source inputs overseas, this will typically be because it makes financial sense for them to do so. In such cases, it will generally make sense for Australia's economy too.

'Offshoring'

This same logic applies to Australian-based firms acquiring inputs of services offshore – such as the ubiquitous call centres with those acquired Australian accents that we have all come to know.

Airlines, banks, telecommunications companies and other businesses are contracting more of their service inputs overseas. People worry that this is exporting Australian jobs and lowering living standards and employment. But the logical flaws that beset instinctive protectionism of local manufacturing apply equally to fear of offshoring of services. Just as for trade in goods, Australia increasingly sells services abroad where we have an advantage (for example, education and specialised medical care), while buying services abroad where we are not competitive.

The latest data on trade in services supports this positive picture. In 2010, Australia exported in total roughly as many services by value as it imported, and has a $6.5

billion surplus in services trade with Asia – so in this region there is actually more 'inshoring' to our country going on than offshoring.

A capacity for offshoring means that businesses reliant on globally competitive inputs can actually compete and survive. Creating barriers to offshoring would undermine domestic businesses and adversely impact on other jobs. In short, like other import restrictions, barriers to offshoring do not secure employment – not necessarily even in the activities concerned – they just make Australians poorer.

Job creation?

That trade barriers do nothing for overall employment in our economy (other than reducing workers' wages) is well illustrated by the steadily rising share of Australia's population in work since the advent of trade liberalisation in the mid-1980s, and their rising real incomes. (In 1985, the participation rate was about 60 per cent and the unemployment rate was 8½ per cent; today participation has risen to 65 per cent and unemployment has fallen to 5 per cent). Industry assistance directed at job creation can, at best, influence the *pattern* of employment. But it only achieves this by helping some workers at the expense of others.

The main exception is in times of high unemployment. However, notwithstanding the Global Financial Crisis, under-utilisation of labour has fortunately not been Australia's problem. On the contrary, there have been increasing calls for the liberalisation of visas for foreign workers in order to fill labour shortages. And, notwithstanding that mining activity is confined to certain parts of the country, regional disparities in unemployment have declined since the boom commenced – through labour movements and generally higher incomes underpinning jobs.

(Potentially) good assistance

If industry assistance that targets import replacement and job creation in certain sectors is generally 'bad' for Australia's productivity and prosperity, what is *good* industry assistance? This is harder to answer as unequivocally, since such assistance not only needs to have a good rationale (which those other forms demonstrably lack) but must also be implemented through measures that meet their goal without giving rise to costs that exceed the benefits.

Innovation policies

Perhaps the best illustration of how hard this can be is industry assistance directed at innovation. No-one can question the importance of innovation to an economy's

productivity performance. Equally, although most innovation takes place spontaneously in response to market pressures and opportunities, we know that some innovations that may be socially valuable will not be privately profitable, because of an inability for investors to appropriate enough of the returns. So a sound rationale for some form of government intervention clearly exists.

But that is the easy bit. The real challenge for assistance policy is to design measures that encourage innovation that would not otherwise have occurred ('additionality') and that would generate private and spillover returns large enough to exceed the costs of the subsidies. That calculus has to take into account that public financing can distort investment and decisions about working, the resource costs of developing, implementing and monitoring innovation policies, the costs of selecting poor projects, and the resources that might be wasted through firms seeking public support for privately profitable ventures.

Australia has used a plethora of approaches over the years to stimulate business investment in innovation – perhaps too many, given the uncertainty that continuing policy change poses for business. While its form has changed considerably over time, generic support for business R&D through the tax system has been one of the few constants in the innovation assistance landscape. Indeed, over time, it has assumed a bigger role. (It comprised around 40 per cent of budgetary assistance to business innovation in 2001-02 and an estimated 75 per cent by 2010-11). The R&D tax concession has several major advantages over alternative measures such as direct grants. Businesses, rather than an interposed judge, make the investment decisions, and the incentive is generic – applying to many different industries and types of innovation.

The biggest hurdles to an effective R&D tax incentive are questions about its ability to achieve additionality and the capacity for activities without much novelty to be classified as R&D. It has always been hard to balance the gains from designing the scheme for higher additionality (for example, through requirements that only projects above some historical base be funded) and the costs from the complexity that such designs entail. Defining R&D has also always been a challenge, particularly discriminating between innovation that involves small developments in existing products and processes (with likely low spillovers) and genuinely novel innovation. In its 2007 review of the innovation system, the Commission recommended a reorientation of support to more risky and novel R&D in line with international definitions and, against some opposition, the government recently introduced a narrower definition in its new tax credit.

In the past, there have been major loopholes in the scheme that, for example, saw cattle entering pilot plant abattoirs being classified as deductible 'feedstock' under

the tax concession. Another problem was the practice of 'grave digging' whereby consultants (for a finders' fee) would trawl through a company's expenditure records to identify concessional opportunities. In those cases, any subsidy that was granted simply amounted to a transfer with no (desirable) behavioural impacts.

These experiences illustrate the risk of unintended consequences with even well-based industry assistance. Understandably, firms and their agents look to maximise the commercial returns from government-funded programs, but that may not be in the national interest.

These shortcomings are particularly persistent for commercialisation grants. These face the problem that they tend to focus on projects with lower levels of risk and prospects for high private returns, and therefore for obtaining private financing. (By mid-2010, 82 per cent of completed Commercial Ready projects were considered successful). In comparison, a grant program that successfully targeted genuinely novel innovations – projects with the highest spillover rates and additionality – would be likely to have a significant technical failure rate.

These quandaries will be confronted by the recent programs to encourage new 'green technologies'. The amount of money is large, so the stakes are high. The Clean Energy Finance Corporation is to invest $10 billion in businesses seeking funds to commercialise new alternative energy technologies; the Australian Renewable Energy Agency will manage $3.2 billion of grants for R&D and commercialisation of such technologies, and there will be an additional $200 million for a Clean Technology Innovation Program. Although the three programs share some common purposes, they will be run by three different agencies.

As noted, there are valid arguments for encouraging R&D in alternative energy, given that private businesses cannot always appropriate the gains from their own R&D – and that remains true even with a price placed on carbon emissions. However, it is less certain that there should be R&D incentives *specific* to these technologies. That would require induced spillovers significantly greater than the average.

The long-running Innovation Investment Fund (IIF) may have lessons for the new CEFC. They share the goal of stimulating ultimately viable financing from the private sector of early-stage commercialisation of risky new technologies. However, an evaluation of the IIF program last year, by three British researchers, concluded that the goal of creating a self-sustaining and privately financed, early-stage venture capital market is unlikely to be realised. They noted that there was negligible evidence that any country had successfully used a public or hybrid venture capital program to achieve such a market.

That said, the losses to taxpayers from the IIF do not appear large, given the modest size of the program and that there have been some returns. The CEFC faces bigger challenges, being a much larger fund and a more narrowly focused one, involving just one technology group – 'clean energy'. In fact, the technological opportunities are even narrower, since carbon capture and storage technologies are excluded, being covered by other programs. That confronts the added difficulties that a small country's innovation capabilities in alternative energy are likely to be constrained (particularly with the nuclear alternative disqualified). Of course, all this may not matter too much as long as the managers of the program feel under no obligation to spend all the money!

Innovation for adjustment

The fact that there is a potentially sound rationale for assistance to promote innovation has seen it become popular as a label for many assistance programs that have little to do with encouraging innovation, let alone addressing market failures. For example, all of the major recent structural adjustment packages for declining industries are referred to as 'innovation' programs. However, innovation does not figure much in most of them. For example, the only references to innovation in the eligibility criteria for the North East Tasmania Innovation and Investment Fund (a response to the closure of the Tonganah Sawmill in Scottsdale) are to the name of the program.

More significantly, the sizeable financial support still being provided by taxpayers to the automotive and (to a lesser extent) TCF industries, although presented under the innovation banner – which has a green light in the WTO – mainly comprises what amounts to production subsidies, which are hard to justify on any 'market failure' grounds.

That is not to suggest that government assistance to help industries adjust is inappropriate – on the contrary – but again it needs to be targeted at justifiable objectives and it needs to facilitate, rather than impede, adjustment to market realities.

In general, the rationale for assistance is much stronger for workers than for businesses. Unlike business, most workers cannot readily diversify risks and are poorly informed about such risks when making employment decisions. Even here, however, there are questions about when selective support is justified (beyond existing generally available welfare and employment programs). Support has tended to be directed at particular instances of job loss that are not different in character to many others. For example, in the past five years, adjustment packages totalling

$150 million have been triggered by around 4,000 job losses – equivalent to only 0.1 per cent of total involuntary job losses Australia-wide.

There are also risks from moral hazard in some adjustment programs. For example, in its recent inquiry, the Commission found that some forms of drought support had essentially evolved into an entitlement, and had frustrated farmers' long-term management of normal climate risks.

What about manufacturing?

The adjustment pressures currently experienced by manufacturing, or at least those industries not directly benefitting from the mining boom, have been seen by some as a special case for government assistance. In thinking about the merits of this, some context may be instructive.

Manufacturing's place in the Australian economy has actually been in secular decline for the past four decades. As with the decline of agriculture in the 19th century, this trend has been common to all advanced economies. For example, in the USA, the share of manufacturing in total employment has fallen from over 20 per cent in 1970 to less than 10 per cent today. As RBA analysis has recently demonstrated, the richer the country, the greater the share of services in its total output. As people's incomes rise, they want to purchase more restaurant meals and commercial holidays. And, as they age, they want more health services and activities complementary to leisure. It is hard to see this as a symptom of economic failure, and thus as a problem requiring remedial policy action.

In Australia, the 1.4 percentage point decline in manufacturing's share of total employment since 2007 is 0.5 percentage points greater than the long term average rate. In other words, the combined effects of the GFC and the so-called 'Dutch disease' related to the mining boom since then, have brought forward ongoing trend structural change by less than 2 years.

The fact that the relative importance of manufacturing is falling does not mean that its *absolute* importance has changed that much. Real output has actually risen by around 50 per cent since 1984. A shift to more capital-intensive production nevertheless saw manufacturing employment fall from 1.1 million in 1984 to 950,000 in 2011, but this is a small change relative to the economy-wide increase in employment over that period.

Furthermore, official employment numbers significantly overstate manufacturing's relative decline. Part of this is a statistical artefact, with many services once provided 'in-house' – such as transport, accounting, IT, legal, and design services –

now being outsourced, and the jobs therefore no longer classified as 'manufacturing' in official statistics.

Indeed, the distinction between 'manufacturing' and agriculture, mining and services activities is becoming increasingly tautological rather than conceptual. Considerable transformation occurs in both mining and agriculture, and the sophistication of the machinery, the complexity of processes and the level of labour skills to recover the useful outputs from these industries can be much greater than for many manufacturing operations. For example, bringing oil and gas up to a drilling platform is an extraordinarily complex engineering task, yet it is only after these transformations have taken place that later transformation is possible. Robotics, new metals and remote sensing devices used in mining are at the frontier of technologies.

Equally, the transformation of raw data into useful information in insurance, finance, health, the internet and mining exploration (to name a few) through remote sensing, neural network software and complex search engines – all services – involves more valuable and complex transformations than those from a sewing needle or lathe.

Against that background, the notion that the mining boom is a 'curse' because it drives up exchange rates misses the point. The mining boom involves sophisticated industries, whose discoveries and activities – and the buoyancy of export demand for those – have greatly increased the buying power of Australian consumers and industries and produced large income flows. As The Economist magazine has put it: "to refer to a vast, valuable energy resource as the source of a 'disease' sounds rather ungrateful".

Ultimately, a dollar is a dollar, regardless of where it is earned or spent. All output uses scarce resources and a well-functioning, productive economy allocates those resources to where they can yield the biggest payoff. Sometimes that will be in manufacturing, but mostly these days it will not.

None of this ignores the reality that many enterprises in the manufacturing sector are doing it tough, particularly with the currently high value of the $A. But, again, there is little support for the proposition that financial struggle is unique to manufacturing. While nearly 30 per cent of manufacturers recorded a loss in 2009-10, the share was 40 per cent for farmers and 53 per cent for miners.

What's more, relative to other industries, manufacturing already gets a lot of government assistance. Net tariff assistance alone was estimated to be around some $6.5 billion in 2009-10, with another $2 billion or so in various subsidies. Rather than providing more assistance, our current fiscal settings suggest that the bigger

priority is to determine what this assistance is achieving for the country and whether it could be better spent.

More productive industry support

It follows that while some forms of industry assistance can potentially meet the 'productivity test', to achieve this in practice they need to be not only well targeted, but also well designed. Given the difficulties, a degree of program experimentation in areas such as innovation policy is not a bad thing (provided any failures can be weeded out). However, too great a focus on finding assistance solutions to industry's problems could distract us from doing better in the policy areas that really would make a difference – not only to industry's productivity and competitiveness, but also to the Australian community at large.

The Commission has shown in various studies how the productivity performance of firms is influenced by policy settings in three key areas:

- *incentives* – the external pressures and disciplines on organisations to perform well;
- *flexibility* – the scope for organisations to make changes in order to respond to market pressures, and
- *capabilities* – the human and knowledge capital, as well as the infrastructure and institutions, needed to devise and implement changes effectively.

These areas are mutually interactive and all three need to be attended to in a policy framework to enhance industry performance. This has as much if not more to do with reforming existing policies in place that are shown to detract from performance, as devising new ones. However, the reform of policies impeding productivity is generally a lot harder than implementing them. Historically, Australia faced a bigger challenge than most, given its starting point. Despite this, much has been achieved, commencing with the market-liberalising initiatives of the Hawke-Keating Government in the 1980s.

These reforms transformed the incentives environment for industry, placing much stronger market pressures on Australian companies to lift their game. However, their success in doing this was facilitated by further reforms to enhance their flexibility and capacity to respond to the new pressures and opportunities afforded by more open markets.

In some important respects, we are seeing a re-run of this scenario today, with the recent ramping up of competitive pressures on Australian industries. This time, the medium is not tariff liberalisation and other pro-competition reforms, but the strong

appreciation of the Australian dollar and the factor demands of the booming mining sector. How well firms and industries manage to respond to these pressures (and how well the economy adjusts) will again depend largely on how much flexibility they have to make the necessary changes – or to adopt new "business models", as the Treasury's Martin Parkinson has put it.

This provides a compelling reason for governments to devote more policy effort right now to identifying impediments to the adaptability of enterprises and employees. Reforms in this area would help industries under pressure compete, while at the same time facilitating resource flows to expanding industries.

So which policy areas are likely to be most 'prospective' in promoting flexibility and adaptability? Given the importance of organisational change to innovation and productivity throughout the economy, labour market policies and Industrial Relations regulation in particular are clearly one important candidate. The taxation system, with its own pervasive effects, including on factor mobility, is another. There is also a range of policies bearing on business start-ups, development approvals and land-use changes that can be significant roadblocks to adjustment. And there is the proliferation of red tape in all jurisdictions that imposes dead weight on firms. I could go on.

The regulatory challenge

Such policy areas share in common a reliance on regulation to influence behaviour. Reforms would be needed to remedy deficiencies in the regulatory 'stock', as well as to prevent additional problems emerging in new regulation. This is obviously easier said than done. But the rewards are potentially large (with red tape reductions alone estimated to be worth some $12 billion in extra GDP). Governments that take the lead in reforming their regulatory systems can create an important source of national competitive advantage.

Poor regulation is often pre-ordained by the processes responsible for it. Over the years, governments have sought to instil greater rigour into regulation-making through requirements to prepare regulation impact statements containing the key elements of good policy process. Notwithstanding considerable efforts to strengthen these requirements, compliance has remained patchy, with considerable resistance apparent within the bureaucracy.

A disturbing manifestation of this is the growing resort to exemptions from the RIS process at the Commonwealth level, under an 'escape clause' in the Government's 'best practice regulation requirements'. This provides for exemptions to the requirements to be granted in exceptional circumstances, provided any such

regulations are then subjected to a 'post-implementation review' within 1-2 years. This clause was inserted as a failsafe to ensure that any regulations made in haste or without adequate scrutiny under the rules, did not give rise to undue costs or unintended consequences – and could be amended or terminated if they did.

As the Commission observes in its recent draft report on Regulation Reform, it was anticipated in crafting this provision that little use would be made of it. However the number of exemptions has increased exponentially since the new arrangements were introduced. Some 60 regulations that would normally be subject to the RIS process have received exemptions, half of these in the past 12 months. They include some important regulatory initiatives, including ones of particular relevance to firm flexibility, such as the Fair Work Act.

It would appear that, contrary to the original conception, some departments may have anticipated that post-implementation reviews would only address relatively limited implementation matters. The Commission has argued that if the integrity of the Government's best practice requirements is to be sustained, these failsafe reviews need to be able to assess all the impacts of such regulations and recommend any necessary modifications. It also argued that in the case of regulations with pervasive impacts, reviews need to be conducted at arm's length from the responsible policy department. (This approach has since been announced by the Government for the review of the Fair Work Act and related regulation early next year).

Concluding comment

At the dawn of the 20th century, Australia was the most prosperous country in the world. This was partly the luck of having ample resources that the world happened to value highly, as Donald Horne highlighted. Nevertheless our subsequent decline – from top position to eighteenth in the world in per capita GDP by the 1980s – was largely self-inflicted, through policies built on the myth that interests could be protected 'all round' from the realities of markets. One hundred years later, having reversed many of the policy-related causes of our previous decline, we find ourselves yet again blessed by burgeoning global demand for our natural resources. This has been a further boon to our economy and to Australia's prosperity, but it does not negate the need for us to be productive if we are to remain prosperous into the future. How we now handle the structural tensions emanating from our present good fortune will determine whether we have learnt the lessons of our own history.