I would like to talk briefly about the National Competition Policy as an example of a broad-scale programme of regulatory reform and to consider NCP in the larger reform context. In particular, I will highlight some of the key reasons for the success of the NCP to date, as well as the challenges we are currently facing and some of the ways we intend to deal with them.

For implementation of a comprehensive reform agenda raises many complex issues. Who makes decisions on where the public interest lies? How are these decisions made? How do we deal with transitional issues and adjustment costs? How does society assist people who are adversely affected by change and/or policy reform? What is the appropriate response to the inevitable political pressures and the noise made by privileged vested interests.

**NCP in its broader context – the promotion of competition**

The NCP was not adopted in a vacuum. It represents a substantial step in a longer-term process of economic reform that has been underway for over 25 years. This reform process has included the adoption of the original Trade Practices Act in 1974, progressive tariff reductions and reforms, commencing around the same time, and the floating of the Australian dollar. It is, I think, very unlikely that such a bold reform program as that...
of the 1995 NCP program could have been adopted if not for the accumulation of previous experiences of major reform in Australia and the understanding in the community of the benefits that those reforms have delivered.

The common theme in all these reforms is recognition that we live in a world whose economies (and societies) are becoming progressively more integrated. Improved transport and communications technologies are breaking down old barriers of distance and isolation and we must be able to compete with the best in order to survive and prosper. The reality of these changes cannot be ignored, but they present both an imperative and an opportunity.

We can and should expect to manage the impact of change, to maximise its benefits and to ensure that we minimise its costs, especially as they affect the most vulnerable in our society. I will return to this point a little later.

Given today’s very diverse and international audience, I should begin with a brief sketch of the main elements of the NCP and an outline of its historical development.

**The Trade Practices Act – origins of a national competition policy**

In 1974, the Federal Government introduced Australia’s first serious legislative regulation of anti-competitive behaviour through the Trade Practices Act. In summary, the restrictive trade practices provisions of that Act prohibit anti-competitive behaviour, unless it can be demonstrated, to an independent authority (the Australian Competition and Consumer Commission or the Australian Competition Tribunal), after a rigorous, objective and transparent review, that there are public benefits outweighing the anti-competitive detriment of the behaviour.

The architects of the Trade Practices Act recognised that, although the Act is primarily designed to improve public welfare and economic efficiency by prohibiting anti-competitive conduct, there may be specific instances in which such conduct may still be in the public interest.

**The 1995 competition policy agreements**

The NCP grew out of the Hilmer Review of competition policy, which was commissioned by Federal, State and Territory heads of government and was completed in 1993. As a result of the Hilmer Report, all Federal, State and Territory Governments agreed to adopt an overarching policy to promote competition throughout the economy. In 1995, the specific set of competition policy agreements was signed. This comprised three documents, the
Competition Principles Agreement, the Conduct Code Agreement and the Implementation Agreement.

The presumption that competition serves the interests of the whole community was carried forward into these 1995 inter-governmental agreements. Anti-competitive regulations, structures and behaviour are to be removed from those sectors of the Australian economy not already covered by the Trade Practices Act, unless it can be demonstrated after an independent, rigorous, objective and transparent review that the public interest community benefits outweigh the anti-competitive costs of these regulations, structure and behaviour.

The presumption that competition serves the public interest, as set out in the competition policy agreements and in Trade Practices law generally, reflects the fact that competition tends to make businesses use resources more efficiently and be more responsive to consumer choices. This acts as a spur for better service provision and lower prices. Of course, there are situations where these benefits may be outweighed by associated costs, for example where market failure might warrant regulation. The point is that competitive outcomes deliver greater benefits than non-competitive outcomes, in the absence of evidence to the contrary.

The NCP agreements set out a number of specific commitments in order to put that principle into practice.

First, all governments agreed to review all their anti-competitive legislation against the public interest test, and implement necessary reforms, over a five year period. The key underlying idea was that all regulatory restrictions on competition, throughout the economy, should be explicitly and transparently scrutinised against a public interest test.

The test was twofold: That anti-competitive regulation should only be retained if:

- The benefits to society as a whole exceeded the costs; and
- There was no less anti-competitive way of securing those benefits.

The test clearly places the onus on those seeking to justify the retention of restrictions on competition.

Second, governments agreed to implement ‘competitive neutrality’ between government business enterprises and the private sector – i.e. to
eliminate the advantages enjoyed by government enterprises specifically because of their government ownership.

Third, governments agreed to review areas of government monopoly in the economy – particularly in energy and infrastructure industries – and to restructure them to implement competition as widely as possible.

Fourth, the policy implemented an ‘access regime’, to facilitate competition by providing open access to natural monopoly infrastructure on fair terms.

Fifth, the provisions of the Trade Practices Act, which prohibits a range of anti-competitive conduct, were effectively extended to all business, government and private.

The National Competition Council was established to provide oversight of the implementation of the National Competition Policy, as well as acting as a policy advisory body on NCP related issues. We have published progress reports on the implementation of the NCP at two-yearly intervals, in 1997, 1999 and 2001. We will be reporting annually in the future.

**Key characteristics of the NCP**

Six years into the NCP process, it is widely regarded as a major success story in terms of economic and regulatory reform. The very longevity of the policy commitment is itself remarkable, particularly in the context of Australia’s very short political cycles. In fact, the NCP has now survived changes in government in every one of the participating jurisdictions and has stuck remarkably closely to the timelines originally agreed by the parties.

Perhaps most importantly, the underlying objective of serving the broad community interest has been made explicit and placed at the centre of NCP. Doing so has provided a clear benchmark for review and reform activity and helped maintain commitment to reform. Importantly, the clear public benefit test has lent credibility to the program as it questions entrenched sectional privileges across a wide range of areas in society.

So what are the key elements in ensuring this success? Also what dangers have revealed themselves and what lessons have been learned. Finally, how are we responding to these challenges in continuing the implementation of the process?
The NCP public interest test

NCP is not about ‘competition for competition’s sake.’ Competition is a means to an end, and that end is community benefit. The NCP benchmark of community benefit is set out in clause 1(3) of the Competition Principles Agreement (CPA). The CPA provides that the merits of applying three central NCP reforms – competitive neutrality, the structural reform of public monopolies, and the reform of anti-competitive legislation – should be determined on a case by case basis using a public interest assessment.

The clause 1(3) test allows all relevant factors to be considered when deciding whether restrictions on competition are warranted. It provides for consideration of an array of community interest matters, including:

- government legislation and policies relating to ecologically sustainable development;
- social welfare and equity considerations, including community service obligations;
- government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;
- economic and regional development, including employment and investment growth;
- the interests of consumers generally or of a class of consumers;
- the competitiveness of Australian businesses; and
- the efficient allocation of resources.

The wording of 1(3) is inclusive, allowing governments considerable discretion in determining what factors need to be considered when assessing the merits of a particular reform. Thus, it has always been open to governments to take account of matters not specifically listed in clause 1(3). The Council of Australian Governments (CoAG – that is, all the heads of government meeting together) has recently encouraged governments to explicitly identify the impacts of reform on specific industry sectors and communities, including adjustment costs. The Council considers this has always been implicit in 1(3).
For example, a review into the merits of a statutory agricultural marketing arrangement would be likely to consider such factors as the impacts of barriers to competition on farmers’ incomes, the welfare of Australian consumers, the value of Australian exports, environmental impacts, administrative and regulatory costs, socio-economic implications for regional communities, employment effects, economies of scale in transport and marketing, agricultural productivity and effects on value-adding industries.

**Weighing public interest considerations**

A challenging task for governments and review bodies is to make judgements on the importance of each factor in a public interest assessment. Certainly – and the Council has made its view on this clear – social and environmental matters are intrinsically as important as financial considerations in determining where the public interest lies (NCC 1999). In other words, all public interest considerations intrinsically carry equal weighting. This does not mean, of course, that for a particular reform proposal, every identified cost and benefit will be quantitatively or qualitatively equal in value.

For instance, consider a reform that would benefit consumers nationally by $100 million while also causing 200 job losses in a particular country town. Matters of judgement arise in weighing these costs and benefits, which must necessarily be done on a case-by-case basis. This process would be easy if a dollar value could be placed on every public interest consideration. Of course that’s not always possible, and sometimes it’s not appropriate to try. But we should remember that, regardless of whether trade-offs between public interest considerations are made quantitatively or qualitatively, judgements are being made about relative worth to the community, at least implicitly. And we make these judgements when there is no reform, just as we do for reform implementation.

In the example I just cited, for example, governments could consider whether maintaining 200 jobs in a country town is best achieved through a $100 million tax on consumers, or whether there are more effective ways of addressing the socio-economic costs of job losses for the individuals and the community concerned.

**Systematic review and reporting requirements**

The review process under NCP has been based on clearly enunciated tests and requirements that apply across a wide range of areas of policy. It has also included clear timelines and reporting requirements from the outset.
Participating jurisdictions prepare annual reports on their progress and the NCC publishes periodic assessments of this progress. These reporting arrangements ensure that pressure is felt by the participating governments, both in terms of the ‘benchmarking’ effect of comparing their progress with others and by providing the basis for pro reform lobbying by business, consumer and other interest groups.

Financial incentives, in the form of substantial “reform dividends” payable by the Federal Government to State and Territory governments, conditional on their satisfying prescribed benchmarks of progress in the reform program, are integrated into the NCP process, providing an additional source of pressure to deliver on reform commitments.

Co-ordinated review, across a broad field

The OECD has, for some years, argued strongly in favour of broad-scale, integrated approaches to regulatory reform, in preference to piecemeal efforts. NCP is regulatory reform at its broadest, involving the application of consistent public benefit tests to most of the statute book of each participating jurisdiction. Some 1700 pieces of legislation are being reviewed over a six year period – indicating just how widespread legislated restrictions on competition have been, even in a relatively market-oriented country such as Australia.

Policy goals and strategies that are explicitly enunciated

The underlying goals of improved living standards and improved competitiveness have been made explicit from the outset. This is one important way of ensuring a high level of public support for the program: people must see the gains that they will make as a result of the reform process.

Inter-governmental co-operation

The adoption of the policy by all Federal, State and Territory governments has meant that it is embraced by all major political parties and has ensured that the benefits of co-ordinated action are gained. It has also allowed the momentum and political commitment to be sustained in the medium term, protecting it to a large extent from the vagaries of political cycles.

The importance of this bi-partisan support for NCP is indicated by the fact that the program remains on track today despite there having been a change in government in every participating State and Territory, as well as federally in the years since it was signed.
Inter-governmental co-operation – as well as a consistent policy framework – are also obviously crucial when an important goal is to create unified national markets and to ensure consistency on the export front.

**Good process – independence, transparent analysis and reasons**

Review processes under the NCP are required to be independent, rigorous and expert and to involve stakeholders and the public. Governments are obliged to report annually on review and reform progress. Many or perhaps most review reports are published, as are the assessments of the NCC.

This means that there is a strong incentive to ensure that the quality of the analysis undertaken is high, as it must withstand detailed scrutiny from a range of sources. It also means that those affected can be engaged in the process and all views can be taken into consideration.

The importance of these elements has also been underlined by the deficiencies in this element of the policy. While many review reports are published, there is no clear obligation on governments to publish them, or even to make them available to the Council. This was an important oversight, particularly in relation to the Council’s responsibility to assess whether review and reform activity complies with the policy.

It is also arguable that the process requirements have been inadequately specified. Complaints have arisen about a lack of independence in reviews in some cases, particularly where vested interest group representatives have been prominent on review panels. These problems clearly have the potential to undermine confidence in the resulting recommendations of review reports.

However, in relation to the review process, the Council accepts that, in each case, the scope of the review needs to be balanced to some extent against the significance of the issue. The Council is aware that the review of around 1700 pieces of legislation is a resource-intensive process. Because of this, we think it is appropriate that relatively minor matters be reviewed within government, rather than through a full public process.

Conversely, it is not appropriate to exempt an area from reform without first conducting a rigorous cost-benefit analysis – to do so would be to invite claims that reform has been suppressed to satisfy vested interests. Similarly, where the net public benefit is unclear, or where there are claims that reform is against the public interest, decisions should be based on an objective assessment of the facts.
In general, the process followed should reflect the significance and complexity of the particular reform or issue (taking into account such matters as the range of affected stakeholders, community sensitivity, and likely regional disparities in the effects of change). As a minimum, however, interested parties should be given the opportunity to participate and should have confidence that their views will be taken into account and given due consideration.

The significant challenge is to focus on outcomes that benefit the community as a whole, rather than providing special treatment for certain groups at the expense of others. Most anti-competitive restrictions benefit someone. But where this imposes costs on others (such as forcing consumers to pay higher prices than would otherwise be necessary), it is important that each side of the argument be weighed in an objective and transparent manner.

The process for measuring costs and benefits requires judgement. The Hawker Committee, for example, accepted the use of both quantitative and qualitative assessments where appropriate. It also noted the need for greater guidance, particularly for local governments, on the practicalities of conducting public benefit assessments. For example, this problem is now being addressed in Queensland through comprehensive training programs for local government officials. The Council has advocated for many years the use of this kind of assistance (NCC 1999).

The impacts of reform on the individuals, regions and industries directly exposed to reform must be taken into account. It is also important that any trade-offs between the interests of different groups are made explicit so that governments can objectively consider the case for adjustment assistance to those who bear the costs of reform.

This is an important point, because the costs of reform tend to fall (at times quite swiftly and severely) on a small minority who have traditionally been insulated from competition. Some are well-organised, well-resourced, and cry loudly if their privileges are threatened.

Against this, the benefits of reform tend to be dispersed over millions of Australian consumers as well as Australian producers whose input costs are lowered through reform. Given that the benefits to each individual may be relatively small (and may flow through gradually), we haven’t seen many street rallies for pro-competitive change. But the aggregate benefit across all players is significant in terms of real incomes, economic growth and (through benefits to exporters) Australia’s external stability. The
lessons here are the need to look at both disaggregated as well as aggregated impacts, and to consider both short-run and longer-run effects.

The complexity of these issues – and the likelihood of vested interests – highlights the importance of independent, transparent and rigorous processes when considering public interest matters. This is essential to maintain community confidence that public interest considerations have been objectively examined and that it is the public interest that is the dominant consideration, rather than the usually more concentrated and thus better organised, sectoral interests.

Regular review of new legislation

The NCP clearly recognises that reform is not a ‘one off’ task, but a process of regular benchmarking and reassessment. This is, again, consistent with the OECD’s emphasise on the concepts of regulatory management, and regulatory quality assurance, in preference to earlier ideas of ‘deregulation’ or even ‘regulatory reform’.

The NCP implements this ‘dynamic’ focus via its requirements for regular review mechanisms to be incorporated in reformed legislation. In addition, all new legislation is required to pass the same essential public benefit test as has been applied to existing legislation under the legislative review element of the policy. Thus, the NCP imposes permanent benchmarks on the legislative process.

Some lessons learned

While NCP has undoubtedly been one of the most successful programs of sustained reform undertaken in Australia, there have certainly been things that could have been done better. Many of you will know that, notwithstanding all the benefits competition policy has brought to the community, it has been widely controversial at various times since 1995 and there is a constant challenge to maintain and improve levels of public support.

As the implementation of the program continues, many of the issues identified along the way are being addressed and a more focused approach to communicating the benefits of reform is being taken. I’d like to highlight here a few of the issues that have arisen and some lessons learned.
Change Management – Consultation and education

Addressing reform is not just an issue for governments, but for the whole community. Before we endeavour to implement reform we must recognise that the wider community may not share our views. Indeed, in many instances it may not have considered the issues and needs first to be informed and ultimately convinced as to the need for reform. The issues need to be discussed in the community, to develop an understanding that there is a problem that requires to be fixed before an attempt is made to promote the merits of the solution.

The approach to any problem must recognise and reflect the interests of all elements of the community, individually and collectively, rather than the narrow interests of a reform proponent. Why should anyone support, or even acquiesce to, a reform measure which involves no apparent benefits and perhaps a few risks? Ideally, everyone is a winner – or more realistically there are substantially more winners than losers, and even the losers can be shown to have been treated fairly and equitably.

Reform needs to be embraced by the community as a whole, not just individual sectors. Accordingly, the community, in the broader sense of that word, needs to be involved from the earlier stages of any reform process. Community involvement provides a focus and a sense of proprietorship over any solution. Where solutions are formulated by individual sectors in isolation, there is a high probability that other sectors of the community will view these solutions with suspicion and as merely serving the self-interest of the proponents.

Successful economic reform then requires –

- careful planning (including anticipating the complexities – political, communicative and technical),

- an approach which reflects the interests of the whole community rather than just the narrow interests of the reform proponent

- rigorous analysis of the best ways for government to support the community interest, and

- leadership of reform implementation through wide consultation and extensive communication and education

You might have thought that these principles state the obvious. I would observe, however, that there have been times during the NCP reform process when one begins to wonder whether what appears to be obvious, has been overwhelmed by obduracy! For it has been apparent that both
in business and government there has been a tendency to lose sight of these fundamental principles with the inevitable consequence that the reform process has faltered.

**Change management - Equity issues**

At times, notwithstanding there may be sound community benefit reasons for pursuing a reform, there will be substantial equity costs. That is, particular groups may suffer disproportionately.

For example, while the Productivity Commission found that most regions in Australia had benefited from NCP, Victoria’s Latrobe Valley had suffered significant job losses arising from electricity reform. The reforms are contributing to a more productive and efficient Australia, but the socio-economic burden on the Latrobe Valley has been significant.

But while some NCP reforms have aggravated hardship in certain industries or communities, the contributing factors are much wider; for example, changing preferences among people to live near the coast, technological change and the long term decline in commodity prices (PC 1999, Senate Select Committee 2000).

Whether adjustment costs flow from NCP or the wider process of change, social assistance to change must become an integral part of reform. The lack of a clearly articulated policy on adjustment assistance within the NCP agreements is, arguably, a major oversight. Such a clear articulation of policy would both signal a commitment to assisting the losers from reform and provide the basis for a consistent and equitable approach. Social assistance to change must become an integral part of reform. To date, governments have responded poorly to this responsibility, (although I note in passing that the Victorian Government has recently announced a long-term initiative to assist the Latrobe Valley in a number of different areas).

The necessary response requires both commitment and vision. In particular, adjustment ‘assistance’ is about much more than money alone. A big cheque is an inadequate response if those affected by change don’t know how to apply the proceeds to assist them to adjust. Witness, for example, the recent mixed response to an adjustment package of nearly $2.0 bn designed to assist Australia’s dairy farmers adjust to a deregulated environment following decades of quotas and regulated milk prices that had led to significant ingrained inefficiencies in the industry at substantial cost to Australian consumers.
Adjustment assistance should be about helping individuals and communities adapt to change in ways that will make them self-sufficient in the future. Sometimes, money may not be appropriate at all. Managing change involves advice and assistance (personal, business and financial), retraining, reskilling, and access to services, specifically by replacement of lost services with alternatives such as enhanced communications infrastructure.

Taking action on these issues is imperative, not just on moral and equity grounds, but to help people feel more optimistic about their ability to adapt in a world where ongoing change is a part of life, and perhaps most important of all, to ensure that people don’t feel that they have been forgotten or discarded by the rest of the community.

Technological progress and engagement in world markets offer very substantial benefits to Australians. Indeed, more than enough benefits to be shared by everyone. Well implemented, competition policy’s public interest objective provides the means to deliver improved living standards for the whole community. But governments must go beyond facilitating and implementing reform to also ensure that the benefits are shared equitably. No-one should be regarded as an expendable cost of achieving the benefits of reform.

**Adjustment assistance vs compensation**

At the same time, we need to draw a clear distinction between adjustment assistance and the calls for ‘compensation’ routinely made by any interest group faced with a government intent on removing its long-held privileges. The reality is that investments that are based largely or solely on regulatory restrictions are inherently risky, and those who take on these investments do so in the knowledge that government policies can and do change.

Reform agendas will quickly slow and stall if Governments were to be required to meet all the paper losses suffered by investors in the industries being reformed. An example is taxi regulation, where the Victorian NCP review calculated that to provide payouts of the theoretical market value of all taxi licences in that state would cost almost a billion dollars. Governments clearly have a very limited capacity to meet those kinds of demands – and the question has to be asked as to why they should. The figure I mentioned is based on the then current market value of licences, yet many, even most licence-holders have not invested anything like those amounts in purchasing the licence, and I am told the ‘market price’ has varied in a range of around $70 – 80,000 this year alone.
The underlying point is that there must be a sharing of the costs of reform, just as the benefits are widely shared. And those who have made speculative investments in regulated industries must accept the possibility that losses, as well as major gains, can result from such investments.

**Recent amendments to the review process and public interest framework**

As I’ve mentioned, the NCP is founded on an explicit public interest test which was, I think, partly meant to assure the community that it was intended to work in the interests of all. Unfortunately, a view has become quite widespread that the public interest test is based almost solely on narrowly ‘economic’ concepts. This was not, and is not, the case. But the perception that it is so has lead to calls from a number of quarters for the test to be ‘re-weighted’ or ‘re-established’.

The participating governments have responded to these calls in part by reaffirming the importance of transparency. The amendments to the NCP framework adopted in November 2000 by the CoAG included the insertion of a requirement that governments document and publish the public interest reasons supporting a decision or assessment.

Other amendments provide that:

- anti-competitive legislation should be reviewed through a properly constituted review process; and

- the outcome of a review must be within a range of outcomes that could reasonably be reached on the basis of the information available.

These amendments show that participating governments are prepared to set rigorous disciplines on themselves in applying the public interest test. For CoAG has now formally accepted the requirement for a properly constituted review process, and a reform outcome that falls within the reasonable bounds that could be expected from such a process.

The Council's approach to its assessment tasks and its recommendations to the Federal Government have always been consistent with this requirement. Once public interest considerations have been rigorously assessed in an independent and transparent forum, the best course of action – whether to implement reform or not to do so – should be apparent, and the public interest would be best served by governments adopting the recommendations accordingly. Within the range of reasonable outcomes, it is up to governments to decide the policy direction.
Many State and Territory reviews have recommended that at least some of the identified restrictions on competition should be retained in the community interest. Where these reviews use transparent, independent and objective processes, the Council has accepted these outcomes as satisfying the intent of the NCP agreements.

The purpose of reform

This leads us on to the question of the purpose of reform. It is clear there is a quite widespread notion that what we are concerned with is increasing competition for its own sake. Not surprisingly, people who have this understanding of the NCP are inclined to ask whether this is always a good idea. Why should we bow to the ‘god’ competition?

Of course, the answer is that we should not. The key message from the series of Community Information Papers and the other communications initiatives the NCC has taken in recent times is that increasing competition is a means to an end, and the end is improved social welfare. We have focused on the idea that restrictions on competition are almost always a means of providing a special benefit to one small group, at considerable cost to the rest of the society, and that our reform program is about removing these special privileges for favoured groups.

NCP and other drivers of change

More generally, there is an essential requirement to ensure that what NCP is and what it is not are clearly understood – to avoid erosion of support for NCP due to its being the ‘scapegoat’ for other dissatisfactions.

While some NCP reforms have aggravated hardship in certain industries or communities, many of the problems that have been attributed to it are actually the result of other factors. For example, recent inquiries, including those conducted by the Productivity Commission in 1999, and by the Senate Select Committee in 2000, have concluded that much of the observed problem of declining regional and rural towns and loss of service provision can be traced back to other factors. These other factors include changing lifestyle preferences, with more people now preferring to live near the coast, technological change and the long term decline in commodity prices.

Another example is that of deregulation of the dairy industry. Many have looked at the dislocations suffered by many dairy farmers and their surrounding communities and seen a major cost imposed by competition policy. In reality, dairy deregulation was less a result of the application of NCP than it was a direct result of more efficient Victorian dairy farmers choosing to exercise their constitutional right to sell their product across
state borders, rather than continuing with a longstanding ‘gentlemen’s agreement’ to refrain from doing so.

**Competition policy and global change**

I would like to conclude by making a wider point about the National Competition Policy, and about policy and regulatory reform generally. I’ve spoken so far about the need to ensure people understand what the NCP is and what it isn’t, about the need for an intelligent and careful approach to implementing and managing the resulting changes and about highlighting and raising understanding of the benefits. However, the fundamental message we need to ensure is delivered is that we have little alternative to pursuing the kinds of changes NCP and related reforms are prompting.

Talk of globalisation and its impacts is a commonplace now, but it is the fundamental context in which we have to see the questions of reform. Australia’s economy is undergoing rapid change driven by innovations in communications, financial and information-based technologies. Our companies now compete globally in an environment in which technological advances are driving down costs and enabling entry to markets that were previously sheltered by barriers of information and distance. With the integration of markets, world’s best practice is the new benchmark and survival depends on achieving it.

These changes come in conjunction with wider forces of structural change, including demographic movements and a long term decline in commodity prices. We are also seeing a shift in consumption patterns and an erosion of traditional demarcations between products and markets (for example, the emergence of multi-utilities selling gas, electricity and telephony).

Wealth creation is no longer simply about boosting aggregate production. Increasingly, it is about finding better ways of doing things, and better ways of meeting consumer wants. This means things like: developing high value, sophisticated professional services, in areas like health, law or education; increasing the value of tourism services through effective niche marketing; producing specialised food products and premium wines; and producing primary inputs that are designed to reduce manufacturing costs or improve downstream product quality.

The nations to prosper in the 21st century will be those that adapt quickly to rapidly changing demand and supply conditions. Increasingly, it is irrelevant to talk about change in Australia, or any other country, as something distinct from global change. With the increased mobility of capital, interest rates and exchange rates – major influences on the wellbeing of all in the community – are now shaped by global capital
markets and international perceptions of our responsiveness to the challenges of global change.

To close ourselves off from the rest of the world – through trade barriers and the like – may be one response to this challenge, but it would be an extremely costly one. The isolationist route would mean taxing the inputs of our own industries, and numbing them from the disciplines of competition. This would insulate us from the very impetus needed to sustain growth and employment in the years ahead. The isolationist approach is the road to becoming an economic backwater; and history has shown that the costs fall heavily on those least able to meet them. Few countries would now even contemplate the idea.
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