
2 Assistance and structural change

Australia's economy changed substantially over the latter half of the twentieth century. As in other developed nations, the relative contribution of Australia's manufacturing and agricultural sectors declined, while the importance of the services sector increased. From a trade perspective, Australia has become less dependent on commodity-based exports, as the manufacturing sector has become more export-oriented and as trade in services has increased.

While many factors have driven these changes, government policies have played a part. In earlier times, trade and industry policies were designed largely to protect and sustain particular sectors of the economy:

- For many years, successive Australian governments sought to foster manufacturing by erecting tariff barriers and import quotas to shield domestic producers from foreign competition.
- Governments also legislated to provide a number of agricultural boards with compulsory crop-acquisition powers and marketing monopolies. These arrangements were used to increase domestic prices and farmers' incomes and, in some cases, to subsidise sales in export markets.
- And, in parts of the services sector, such as air travel, the waterfront and certain professions, industry regulation and occupational licensing schemes were used to bar new entrants to the marketplace, and to restrict competition among the existing suppliers.

More recently, governments have pursued trade liberalisation, competition policy and other forms of microeconomic reform to promote a more open and adaptive economy. In general, the aim has shifted from protecting particular occupations, firms or industries to enhancing the efficiency of the economy as a whole.

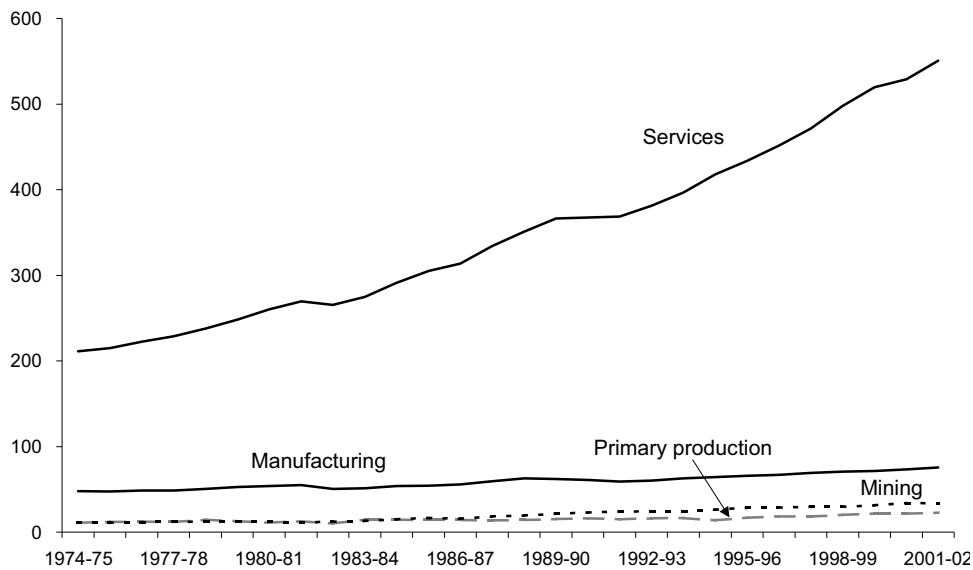
While the economic reforms of the last two decades have unwound many forms of industry assistance, a range of selective assistance measures remain. Some of these have a sound public policy rationale. Others are more difficult to justify.

In this chapter, the Commission describes some key changes in the structure of the Australian economy over recent decades, and outlines the broad role that changing levels and forms of assistance have played in these developments.

2.1 The changing structure of production and trade

Australia's GDP has more than doubled in real terms since the mid-1970s, led by rapid growth in the services sector, which now accounts for 80 per cent of total domestic output (figure 2.1). Although the other sectors have declined in relative importance, their real output has also increased.

Figure 2.1 **Gross value added by sector, 1974-75 to 2001-02**
\$ billion (real prices)



Source: EconData (2002) (ABS table 5206-01).

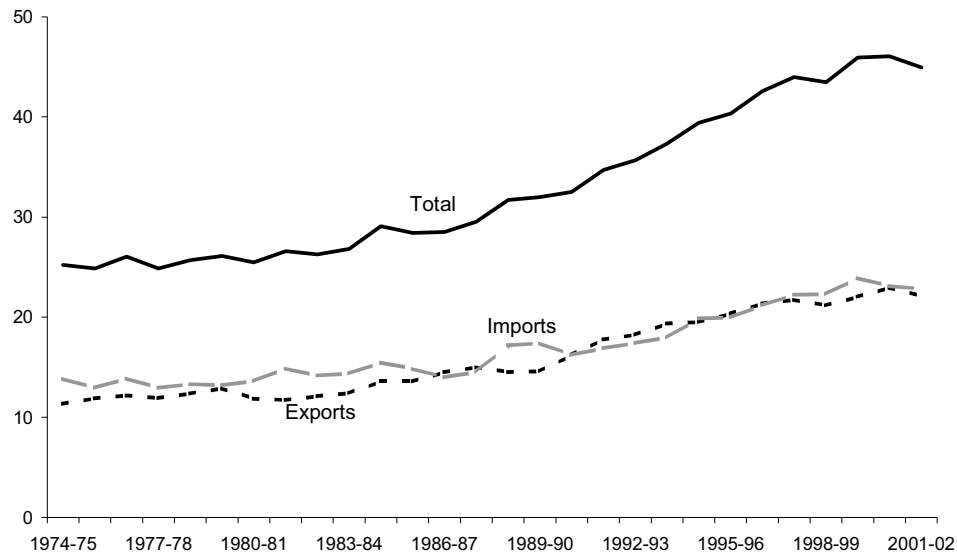
Trade has also grown in importance over the last two decades, driven in part by progressive trade liberalisation both in Australia and abroad. Trade intensity (imports plus exports of goods and services, as a proportion of GDP) has increased from 31 per cent in 1974-75 to 45 per cent in 2001-02 (figure 2.2).

Manufactured goods continue to account for the bulk of Australia's imports. Between 1991-92 and 2001-02, imports of manufactures more than doubled (in real terms) to reach \$119 billion, equivalent to 72 per cent of total imports, reflecting domestic economic growth and the wider availability of competitively-priced goods from abroad. Imports in the primary, services and other sectors also increased over this period.

Growth in total exports was similar to that in total imports (figure 2.2). The traditional exports of minerals, fuels and agricultural products continue to form the majority of Australia's exports of goods and services, amounting to 58 per cent of total exports in 2001-02. However, their share of total exports has declined from

around 62 per cent in 1991-92 as a result of accelerated growth in exports of manufactured products and services.

Figure 2.2 Trade intensity, 1974-75 to 2001-02
per cent of GDP



Data source: EconData (2002) (ABS tables 5206-51 and 5206-47).

2.2 Sectoral changes

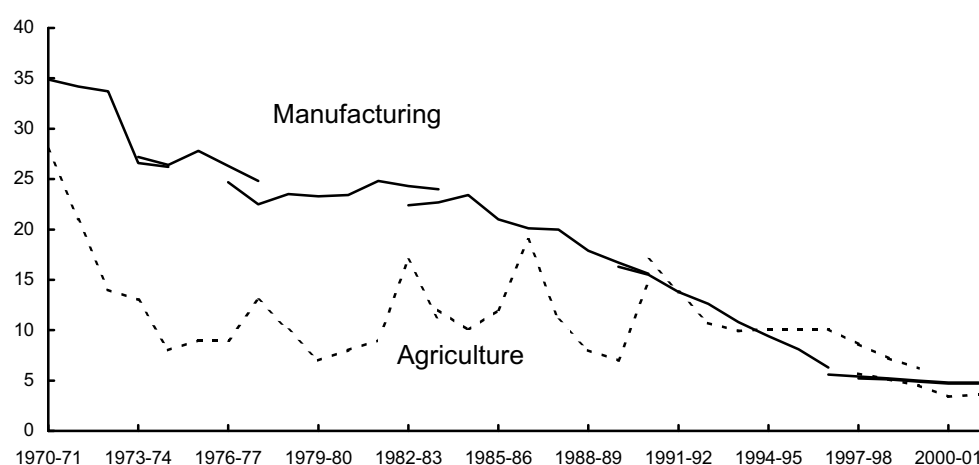
Manufacturing

Assistance to manufacturing has declined significantly over recent decades, largely due to the abolition of quotas and progressive reductions in tariffs since the mid-1980s (figure 2.3). With declining tariff rates, budgetary assistance has become relatively more important. Whereas import protection encourages local producers to focus on supplying the domestic market, and effectively penalises export activity, most budgetary assistance is more neutral between exports and domestic sales.

Thus, as import protection has declined, domestic manufacturing based solely on import-replacement strategies has increasingly made way for more export oriented and globally integrated production. For example, in the motor vehicle manufacturing industry, increasing import competition has provided important stimulus for the four domestic vehicle assemblers to adopt more innovative and efficient production practices and to look abroad for new markets. Automotive imports and exports have increased considerably over recent years, with the latter now accounting for more than 30 per cent of domestic automotive output.

Exports of domestic manufactures have increased almost threefold since 1990, partly offsetting the growth in manufactured imports. Today, the manufacturing sector accounts for around one-quarter of Australia's exports and around 12 per cent of total employment and GDP (table 2.1).

Figure 2.3 Average effective rates^a of protection to manufacturing^b and assistance to agriculture^b, 1970-71 to 2001-02
per cent



^a The effective rate of protection/assistance is the dollar value of measured protection/assistance divided by unassisted value added. Breaks in the series reflect the effects of periodic re-benchmarking to new reference data on industry inputs and outputs. ^b The effective rate of protection to manufacturing is not directly comparable with the effective rate of assistance to agriculture, due to differences in coverage, data and methodologies between the two sets of series. Among other things, the manufacturing series measures predominantly tariff and quota assistance (although selected budgetary assistance has been included in some series). The agricultural series measures tariff assistance, most budgetary assistance afforded agriculture and, the main component, assistance provided by domestic regulatory and pricing arrangements.

Data source: Commission estimates.

Primary production

While much of the agricultural sector is technically efficient by world standards and export-oriented, the production of a range of farm commodities — including sugar, tobacco, dried vine fruit, eggs, milk and rice — once attracted considerable assistance through statutory marketing and regulatory arrangements.

From the mid-1980s, governments began to unwind the price supports and other arrangements in a number of these industries. The dismantling of these arrangements, and other pressures such as a long-term decline in commodity prices, have provided incentives for rationalisation and greater efficiency in production. Reduced tariffs on machinery and other farm inputs have also increased the competitiveness of agricultural industries.

Assistance to a number of agricultural industries declined over the 1990s, but the level of assistance for primary production as a whole (figure 2.3) would have fallen further had it not been for the continuation of support for the dairy industry. Prior to its deregulation in July 2000, assistance to milk production accounted for well over half of all estimated assistance to agriculture. Assistance to agriculture dropped significantly in 2000-01. Prior to the current drought, the primary production sector accounted for around 20 per cent of Australia's exports, 3.5 per cent of employment and 5 per cent of GDP (table 2.1).

Mining

The mining sector has always been highly export-oriented. It accounts for around 35 per cent of Australia's total exports, although only 5 per cent of GDP and 1 per cent of employment. The main government interventions affecting the sector today are environmental regulations, prescribed royalty levels and accelerated depreciation provisions. Native title legislation can also affect land access and tenure. In contrast, most forms of budgetary assistance and tariffs have a relatively minor impact on the sector.

Services

As noted earlier, the services sector's share of domestic economic activity has grown considerably over recent decades. Today it accounts for around 80 per cent of GDP and employment. *Property & business, finance & insurance, health & community services, construction, transport & storage, and wholesale & retail trade* are some of the largest service industries in Australia (table 2.1).

Although trade in some services is not practicable, the introduction of new technologies and reductions in barriers to the international movement of people and capital over recent years has seen services become the fastest growing component of international trade. Even so, services are presently estimated to account for only 20 per cent of Australia's imports and exports.

The nature of services means that they cannot be protected through tariffs — in fact, tariffs on manufactured items impose significant cost penalties on services inputs (chapter 3). Rather, government assistance in the services sector takes more subtle forms. For example, imports of services may be restricted through regulatory barriers, such as limits on the temporary immigration of professionals or on the number of foreign bank licences. Whereas gauging the effects of tariffs on prices is relatively straight-forward, measuring the effects of such restrictions is difficult.

Table 2.1 Gross product and employment by sector^a, 2001-2002

Sector	Gross product ^b		Employment	
	Value \$m	Share %	Persons '000	Share %
<i>Primary production</i>	22 119	100.0	438	100.0
Agriculture	20 575	93.0	407	92.8
Forestry and fisheries	1 544	7.0	31	7.2
Total primary production as a percentage of total gross product and employment	3.5		4.8	
<i>Mining</i>	33 865	100.0	94	100.0
Total mining as a percentage of total gross product and employment	4.7		1.0	
<i>Manufacturing</i>	75 573	100.0	1 098	100.0
Food, beverages & tobacco	14 483	19.2	187	17.0
Textiles, clothing & footwear	2 276	3.0	76	6.9
Wood & paper products	5 433	7.2	72	6.6
Printing, publishing & recorded media	7 195	9.5	108	9.8
Petroleum, coal & chemicals	10 348	13.7	111	10.1
Non-metallic mineral products	3 900	5.2	45	4.1
Metal products	12 810	17.0	163	14.8
Machinery & equipment	15 852	21.0	251	22.8
Other manufacturing	3 276	4.3	86	7.8
Total manufacturing as a percentage of total gross product and employment	12.0		11.9	
<i>Services</i>	502 977	100.0	7 590	100.0
Electricity, gas & water supply	15 226	3.0	67	0.9
Construction	39 011	7.8	76	9.3
Wholesale trade	34 714	6.9	436	5.7
Retail trade	34 646	6.9	1 395	18.4
Accommodation, cafes & restaurants	15 350	3.1	464	6.1
Transport & storage	33 988	6.8	415	5.5
Communication	19 814	3.9	170	2.2
Finance & insurance	46 943	9.3	349	4.6
Property & business	77 162	15.3	1 043	13.7
Government administration & defence	25 440	5.1	393	5.2
Education	30 317	6.0	646	8.5
Health & community	40 438	8.0	909	12.0
Cultural & recreation	11 821	2.4	234	3.1
Personal & other	15 829	3.1	365	4.8
Ownership of dwellings	62 278	12.4	na	na
Total services as a percentage of total gross product and employment	79.8		82.3	

^a Figures may not add to totals due to rounding. ^b Gross product data are the industry gross value added at basic prices using 2000-01 chain volume measures. Total output is the total gross value added.

Source: ABS (2002a), EconData (2002).

Given the nature of services, the main sources of assistance to these industries appears to arise not from protection against foreign suppliers but from general restrictions on competition within the domestic market. Examples include: limits on the number of people who can enter particular professions, such as the medical specialities; controls, such as taxi licences, that limit the number of firms that can operate in a market; and the monopoly provision of major infrastructure services, such as gas supply and pipelines services, often by government instrumentalities or regulated private sector providers. Some of these restrictions are justified to deal with ‘market failures’ in the relevant industries or markets. However, increasingly since the early 1990s, Australian governments have been reviewing and reforming a variety of anti-competitive measures, latterly under the National Competition Policy.