IPA Backgrounder

ODD BEDFELLOWS

THE ECONOMIC NATIONALISTS AND WHY THEY ARE WRONG

by LYNDON ROWE

The sudden success of the One Nation party in the June 1998 Queensland State election—where it achieved the second highest primary vote of any political party—has increased even further the comment and controversy surrounding this new political force. Although its position on racial matters has excited great comment, its general outlook on economic policy is one which it shares with a range of other parties—some of which, such as the Greens and the Democrats, seem very unlikely bedfellows with One Nation.

Nevertheless, when one examines the economic policies of these parties, as well as those of the Advance Australia Party of Rex Connor Junior and Graeme Campbell MP's Australia First, there is a high degree of similarity. These otherwise diverse parties all espouse what some of them call 'economic nationalism'—coined in explicit opposition to 'economic rationalism' and the economic reform programme of the last 15 years.

This economic nationalism, if adopted in whole or in part, has the potential to do great damage to the Australian economy. It is based on a series of errors and fallacies which would greatly hamper the ability of most Australian households and firms to cope with, and benefit from, the changes sweeping the global economy.

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INTRODUCTION

The success of the One Nation party in the June 1998 Queensland election has introduced a new dimension into Australian politics. Most commentators focus, understandably, on One Nation's racial policies. But its economic policies have much in common with those of other minority parties and have the potential to do Australia's economy enormous damage.

'Economic Nationalism'[1] is the cornerstone of the economic policies of a range of smaller parties whose philosophies would generally, in conventional terms (left/right, pro/anti business or labour, politically correct/incorrect), be viewed as diametric opposites. Yet there are large areas of overlap in the policies of, for example, the Australian Greens and One Nation, or Graeme Campbell's Australia First Party and the Australian Democrats.

This *Backgrounder* discusses the components and merits of the 'economic nationalism' agenda in detail. It examines some of the common threads, causes and political philosophies which underpin it, and assesses their potential impact on Australia's economy. Finally, it raises some issues which deserve general consideration.

WHAT IS ECONOMIC NATIONALISM?

As its name suggests, 'economic nationalism' is a term designed to indicate an alternative to 'economic rationalism'. Economic nationalist policies typically include:

- Reductions in foreign ownership of Australian property and assets through regulation and investment controls. For example, the Advance Australia Party's slogan is 'buy back the farm', One Nation's policy is 'to restrict foreign ownership of Australia'. The Australian Democrats have proposed that 'property other than the family home now owned by non-Australian citizens, when sold, must be sold to Australian citizens or permanent residents' and that 'family homes presently owned by non-Australian citizens may be inherited only if valued under $500,000, unless such land would be inherited in totality by Australian citizens'.
- Tariffs, quotas, import taxes or other import controls, in many cases based on a preference for bilateral over multilateral agreements, and contingent or reciprocal trade liberalization (you cut your tariffs, I'll cut mine). One Nation's platform is that the '…federal government must provide protection for primary (and manufacturing) industries by way of tariffs… at least equivalent to those of our trading partners in respect of reciprocal same product trade'. The Australian Democrats' policy is that 'Tariff cuts should cease immediately and any further reductions should only occur on a *quid pro quo* basis with our major trading partners and competitors'.
- A reduction in Australia's involvement in multinational agreements designed to liberalize trade and promote investment (in particular, all oppose the MAI and many have reservations about the World Trade Organization and the United Nations). However, sharp differences of opinion occur on international agreements which are aimed at non-trade issues or which link trade restrictions to social and other policies, such as the Draft UN Declaration on Indigenous Rights, and proposals to link international trade to environmental standards. Trade restrictions based on human rights or labour standards receive broader support.
- Beyond direct trade controls, some advocate taxing or restricting the flows of international investment (the Australian Greens want a 0.5 per cent tax on all international transactions).
- Re-regulation of the financial sector. The Australian Greens argue that 'a deregulated financial system is incompatible with social and environmental sustainability'. Many parties also advocate introducing cheap or subsidized loans for some types of customers either through com-

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1. This expression has been used by both Pauline Hanson and Cheryl Kernot (in her previous role as leader of the Australian Democrats) to describe their respective economic policies.

pelling financial institutions to do so (the Australian Democrats would '…direct financial institutions to provide affordable finance to certain categories of borrowers, in particular home buyers, rural producers, and small businesses'), through government subsidies (One Nation advocates '…the establishment of a government sponsored Australian national bank whose primary purpose would be low interest funding to primary producers and rural industries…') or other mechanisms (the Australian Greens '…support the establishment and use of community controlled investment facilities which direct investments to eliminate reliance on foreign borrowings by both the public and private sectors. Investments in ethical enterprises which emphasize both social and environmental sustainability will be encouraged').

- Selective other industry assistance targeted variously at exporters, import-competing businesses, rural businesses, small businesses, high-tech businesses, manufacturers, 'environmentally-sustainable' businesses, and 'growth industries'.
- Support for some taxation changes, but not (usually) a broad-based consumption tax.
- In some (not all) cases, antipathy to elements of competition policy, especially as it impacts either on small business or rural marketing agencies. For example, the Australian Democrats advocate 'opposing the use of Competition Policy to damage the status of small business, and the use of the regulatory review process under Competition Policy to deregulate the newsagents industry, the taxi driving industry, the agricultural marketing industry and the petroleum industry. Regulation of these industries to protect the interests of small business is clearly in the public interest'. While on co-operatives and producer marketing bodies, 'One Nation will eliminate the National Competition Policy elements which currently inhibit or prevent such structures'.

SUPPORT FOR 'ECONOMIC NATIONALIST' POLICIES IS SO WIDESPREAD THAT IT WOULD BE INAPPROPRIATE AND POTENTIALLY DAMAGING TO CONTINUE DISMISSING THEM AS TOO ABSURD TO BE WORTHY OF ATTENTION

- Antipathy to privatization, at least of some industries. Australia First argues that 'Certain public facilities must remain in Australian hands, for example, city water supplies, communication facilities, public transport facilities, emergency services'. The Advance Australia Party advocates 'Return to a genuine 'mixed' economy with a strong, effective & efficient public sector'. The Australian Democrats argue that 'any proposal to sell off a public enterprise must be accompanied by a Consumer Impact Statement. Such a statement would investigate questions of efficiency, what the government would do to help consumers if cross-subsidies were to be discontinued, pricing, and the maintenance of services to minority groups', while 'The Australian Greens support continued public ownership and control of public sector enterprises especially services such as power, water and telecommunications'. One Nation does not appear to have a policy on privatization, but Pauline Hanson has been critical of privately-owned prisons and of the Telstra privatization.

THE SUCCESS OF ONE NATION IS INDICATIVE OF THE GROWING POPULARITY OF A POLITICAL PHILOSOPHY WHICH WILL BE INCREASINGLY HARD FOR MAINSTREAM POLITICAL PARTIES TO IGNORE

- Controls and regulation of the labour market, although parties vary widely in the degree of regulation they advocate. All support minimum wages. The Australian Democrats argue for 'introduction of industrial democracy and democratic control over key elements of industry, and the introduction of democratic planning and decision-making processes'.
- The reduction of immigration or a policy of zero net immigration.

What's Wrong with Economic Nationalism

The main assumption of economic nationalism is that Australia's economic woes have two sources—unrestrained exposure to the international economy, and the failure of its governments to exercise enough control and direction of the economic activities of

Australian residents and businesses.

But the reverse is true. Australia's standard of living will ultimately depend on its capacity to harness the creativity and enterprise of all of its people, not just its public servants and politicians.

We will gain most from our wealth of human and natural resources by engaging with the rest of the world, not trying to build barriers against it.

Whether promoted by the political left or right, the major parties or the minor ones, the politically correct or the intentionally incorrect, economic nationalism could wreak untold damage.

It is worth covering briefly what is wrong with the economic nationalist agenda:

Foreign Investment

It would be nice if Australians were less reliant on overseas savings to finance investment. However, as Vince FitzGerald said in his *National Savings, A Report to the Treasurer*, it is only through our own domestic savings that we as Australians can increase our own wealth.

There is a finite pool of domestic savings available to finance investment. The choice is not foreign investment or Australian investment; it is foreign investment or lower investment. Lower investment would mean lower economic growth, lower living standards, and higher unemployment.

Nor is it appropriate or desirable for governments to try to select the forms of foreign investment it will permit, or to direct it to certain forms of economic activity. Restricting investors' choice will reduce the amount they invest. It is virtually impossible to quantify how indirect investment finally affects the economy—for example, what proportion of foreign lending to Australian banks (the largest component of foreign investment) is used to back loans to Australian small businesses.

AUSTRALIA'S STANDARD OF LIVING WILL ULTIMATELY DEPEND ON ITS CAPACITY TO HARNESS THE CREATIVITY AND ENTERPRISE OF ALL OF ITS PEOPLE, NOT JUST ITS PUBLIC SERVANTS AND POLITICIANS

And of course, direct overseas investment brings ancillary benefits in terms of knowledge, expertise, access to intellectual property, and access to markets.

Governments may have a legitimate concern about Australia's reliance on overseas investment. But the solution is to raise domestic savings, not to implement measures which will lower investment in Australia.

Import Controls

Many economic nationalists argue that, in the 'real world', other countries apply tariff and non-tariff barriers which harm Australian exporters, that internationally the 'level playing field' is a myth which will never become reality. They say that economic policies which would benefit Australia only if other countries played the game as fairly as we do are doomed to fail.

This is entirely correct.

However, it is entirely *in*correct to say that the appropriate response is to maintain tariffs or to reduce them only if other countries do the same.

This argument misses the point about tariff reductions. The case for reducing tariffs in Australia does not rest on the benefits of similar reductions in other countries (real though those are) but on the benefits which it will create for the Australian economy irrespective of what other countries are doing. That the international playing field will never be level is true but irrelevant. The key objective of cutting tariffs is to create a more level playing field *within Australia*, because this will yield net benefits for the Australian economy. If other countries choose to reduce their citizens' standards of living by imposing tariffs on them, that is their concern.

THE KEY OBJECTIVE OF CUTTING TARIFFS IS TO CREATE A MORE LEVEL PLAYING FIELD *WITHIN AUSTRALIA*, BECAUSE THIS WILL YIELD NET BENEFITS FOR THE AUSTRALIAN ECONOMY

The problem with protection and subsidies, and tariffs in particular, is that it helps some sectors of our economy at the expense of others. Consumers lose and (some) businesses and governments win. Inefficient producers win and efficient ones lose—through higher taxes, higher wages, higher input costs, and lower consumer demand.

Above all, exporters lose, because they cannot pass on the effects of higher domestic costs in international markets.

And, on balance, the economy as a whole loses, because by transferring resources from competitive to non-competitive industries and businesses, the level of production is lower than it otherwise might be.

Of course, Australian producers have legitimate grievances when they face 'unfair' competition from subsidized exports or are denied access to protected markets overseas. But the existence of overseas subsidies and protection, however unfair and undesirable, does not in itself mean that the Australian economy will benefit from matching those subsidies and tariffs. By and large, it will not.

> **THE EXISTENCE OF OVERSEAS SUBSIDIES AND PROTECTION, HOWEVER UNFAIR AND UNDESIRABLE, DOES NOT IN ITSELF MEAN THAT THE AUSTRALIAN ECONOMY WILL BENEFIT FROM MATCHING THOSE SUBSIDIES AND TARIFFS**

It is worth making a couple of other points about reciprocal tariff cuts. Australia is too small a player in world markets to exercise significant clout in negotiating tariff cuts. The only country for whom Australia is a major trading partner is New Zealand, which already has lower external tariffs than Australia and, under Closer Economic Relations (CER), negligible trade barriers against Australia's exports.

Secondly, it is not correct to assume that Australia applies lower tariffs or fewer subsidies than its trading partners. This is true for some products, but not for all. In general, tariffs are lower in the USA and Japan than here. Of course, some of our trading partners in the newly industrializing economies have much higher (tariff and other) import barriers than Australia. But given that most of our trading partners already apply comparable or lower general tariffs than Australia, the case for reciprocity seems somewhat weak.

Multinational Agreements

Many groups across the political spectrum have expressed concerns about the extent to which Australia's participation in multinational treaties and agreements undermines sovereignty and accountability. Concerns include:

- it allows the Commonwealth executive to determine major policy shifts without proper parliamentary scrutiny and without regard for the implications for other jurisdictions; and
- treaties restricting activities whose effects are purely domestic.

There are, however, instances where issues can only be resolved by international co-operation and agreement, principally those in which activities undertaken in one country have a direct impact on citizens of other countries. Greenhouse gas emissions are probably one such instance—for all of the flaws of the Kyoto Conference, it is only through such mechanisms that the greenhouse gas issue can be addressed (indeed, the key flaw at Kyoto was that it was not truly global in scope—many countries are not obliged to reduce emissions).

The rules of international trade and investment are similarly a legitimate case for international agreement. Australians must consider carefully whether, for example, the benefits of signing the MAI (a greater quality and quantity of foreign investment) are worth the costs (loss of sovereignty and domestic policy flexibility), and what exemptions or conditions it might like to apply. It should also ensure that proper debate and consultation are permitted. But it should not refuse to abide by international rules and agreements as a matter of principle.

International Investment Flows

Concerns about the volatile, unpredictable and apparently irrational flows of hot money around the world are not confined to economic nationalists. Recent events in Asia starkly demonstrate the real economic damage which can be caused by abrupt shifts in market sentiment.

The Australian Greens' proposal for a 0.5 per cent tax on all international transactions has a respectable economic pedigree. Such a tax (a 'Tobin' tax) has been proposed as one means to dampen short-term speculative shifts of cash around the globe. It is not a bad idea (though 0.5 per cent seems too high)—assuming, of course, that all other countries agree to do the same (see Multinational Agreements above).

> **OTHER PROPOSALS, FOR EXAMPLE THAT TRANSACTIONS SHOULD BE EVALUATED ON INDIVIDUAL MERIT ... RAISE THE PROSPECT OF A BUREAUCRATIC AND ADMINISTRATIVE NIGHTMARE FOR BUSINESSES ENGAGED IN TRADE**

Other proposals, for example that transactions should be evaluated on individual merit and could only proceed with administrative approval, raise the prospect of a bureaucratic and administrative nightmare for businesses engaged in trade. Such bureaucratic discretion is an open invitation either for personal corruption—as is the case in Asia and elsewhere—or the worst sort of interest group politics.

Re-regulation of the Financial Sector

Re-regulation of the financial sector raises the spectre of a vastly reduced range of finance options and much lower competition which would ultimately harm all businesses and consumers.

In effect, most proposals would compel finance companies to undertake poor commercial behaviour—lending below cost to certain categories of customers or, alternatively, refusing to lend to viable customers.

Subsidized loans for some customers could only be achieved at a higher cost to other people—whether financed through cross-subsidies between banking customers (for example, from householders to farmers) or through additional taxes.

More intrusive direction of banking activities could have even greater consequences. A return to 'command-and-control' direction of, for example, the banking sector, would be sustainable only if all minor banks and non-bank lenders were subject to the same rules—one of the main impetuses behind deregulation was the fact that, as borrowers were faced with a wider choice of lending institutions, they could choose to borrow elsewhere. Regulation of the banks was no longer enough to regulate the whole finance sector, and banks lost customers and competitiveness as a result. Financial market regulation would be possible only if the range of financing options and the diversity of financial service providers were greatly reduced.

This would do great harm to the business and household consumers of financial services, who have benefited substantially from greater competition and diversity in the financial services market.

Events in Australia in the late 1980s and early 1990s, and in Asia over the past year, have clearly demonstrated that there is a case for some government regulation of financial businesses. But this role lies in ensuring proper prudential requirements, adequate asset backing, transparent accounting and the appropriate treatment of non-performing loans, not in directing financial institutions to cross-subsidize between customers or lend only to certain types of customer. Indeed, this latter form of government intervention appears to have contributed to the Asian meltdown.

Selective Industry Assistance

Much of the economic nationalist agenda focuses on attempts to shape economic development by targeting assistance at certain industries or types of business.

The problem with picking winners is that every business and industry not picked is a loser. The losers carry the direct costs of providing the taxes to pay for others' subsidies, and indirect costs through the re-direction of investment funds and consumer spending towards subsidized activity. Ultimately, the whole economy loses, unless government is better able to judge what consumers want than they are themselves.

A business which is a viable commercial proposition should need no direct assistance from government in order to succeed, unless its success is imperilled by government itself—for example by inappropriate taxation or regulatory regimes. In this case, the best solution is to fix the problem, not to try to compensate for it.

Businesses invest in what they believe are viable commercial propositions. Financial institutions and the stock market provide money for them if they agree. Differing degrees of risk against potential profits are reflected in different interest charges or rates of return on investment.

Picking winners is the central role of business, lending institutions and stock markets. If they pick losers they fail; if they are too risk-averse to pick potential winners then they also fail. They have greater expertise and a greater incentive to 'get it right' than the government or public servants.

In a country such as Australia with sophisticated financial markets, the chances of the government identifying and rectifying errors of judgement on the part of the stock markets or banks are far outweighed by the risk of losing taxpayers' money in attempts to support businesses and industries which cannot attract private funding. If the usual sources of risk capital will not voluntarily support a project, there can be no case for compelling taxpayers to do so.

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If there is seldom a genuine case in which government should pick winners; the case against picking losers is even more clear-cut.

A business which is too great a risk for commercial lenders and investors to support is generally too great a risk for the taxpayer to support.

As experience in South Australia and Victoria showed, projects whose likely returns are not adequate for the risks involved get fobbed off on to the long-suffering taxpayer. Another clear example of this is the experience of the West Australian Government of the late 1980s. A substantial amount of taxpayers' money was committed to questionable ventures and the result after the collapse was a period of slower economic growth and an increased burden on taxpayers. These debacles not only made the community worse off, they undermined public faith in the political process.

A BUSINESS WHICH IS A VIABLE COMMERCIAL PROPOSITION SHOULD NEED NO DIRECT ASSISTANCE FROM GOVERNMENT IN ORDER TO SUCCEED, UNLESS ITS SUCCESS IS IMPERILLED BY GOVERNMENT ITSELF

Supporting industries and businesses which are otherwise not commercially viable represents a transfer of resources from efficient industries and businesses to inefficient ones. It is also a direct inhibitor to fair competition—the purpose of picking losers is to enable a business or industry to survive which would otherwise be uncompetitive.

Taxation

While many economic nationalists advocate some measure of tax reform, none appear actively to support a broad-based consumption tax, though positions range from an open mind to outright opposition. Those that oppose a GST-type tax usually take the view that it is regressive. For example, the Australian Democrats have argued that 'broadly based consumption taxes are inequitable because the same amount of tax is paid on the purchase of a particular good or service irrespective of the buyer's level of income. A general consumption or value added tax will not be introduced or supported'. However, they appear to have moderated this position recently.

Competition Policy

Antipathy to competition policy echoes the themes outlined above—that it reduces governments' capacity to discriminate between businesses and businesses' capacity to collude.

The Australian Democrats seem to believe that the private benefit enjoyed by small businesses when they are treated more favourably than large ones is synonymous with community benefit.

This misses the key point about the intent and effect of competition policy—it is properly concerned only with promoting the interests of consumers, not of particular businesses or types of businesses. Where taxis are licensed and regulated, there tend to be fewer taxis and they charge higher prices. Deregulated trading hours allow consumers to shop when they want to, not when the government thinks they should. Potatoes sold through marketing authorities are more expensive than those that are not. From airlines to telecommunications, deregulation has delivered better quality services, greater choice and lower prices.

This is not to say that totally free and open competition is always and everywhere a good thing. Some of the economic nationalists' concerns about competition policy echo issues which have been raised over recent years and which contain some substance. However, these issues are adequately addressed under competition policy guidelines, which permit anti-competitive behaviour deemed to be in the community interest. The problem with most 'economic nationalist' objections to competition policy is that they aim to put sectional interests above the community interest.

Privatization

Antipathy to privatization is motivated by different rationales by different groups. There is a fear of loss of 'our' assets which echoes closely the arguments against foreign investment. There is also a belief that the practices in which public monopoly businesses can indulge but in which competitive private businesses can't, represent a community benefit—for example, over-manning and over-servicing (One Nation's opposition to the Telstra sale appears based on the job losses required to fit it for a competitive environment) and cross-subsidies to households and rural areas (and these can be maintained in a competitive privatized environment if the community decides it wants to pay for them).

The Australian Democrats remain convinced that, by and large, the net revenue received for a privatized asset can never match the net present value of a publicly-owned asset because treasuries have access to cheaper interest rates than the private sector. If this argument were correct, then all assets should be nationalized—as they would then increase in value! The error in the argument is that public-sector interest rates do not represent the risks involved with particular assets and so provide

PRIVATIZATION REDUCES GOVERNMENTS' CONFLICT OF INTEREST AS THE OWNER OF A SPECIFIC MONOPOLY BUSINESS AND THE AGENCY RESPONSIBLE FOR REGULATING THE INDUSTRY IN THE GENERAL INTEREST

no useful basis for allocating capital—which is one of the major problems with government ownership.

There are also some legitimate concerns about which government activities are core activities and should therefore not be delegated—for example, on private prisons.

The case in favour of privatization does not rest on an intrinsic preference for private ownership but on solid evidence that it delivers benefits:

- private companies operating in competitive markets are better managed that public ones because their managers face real sanctions—takeover or dismissal by shareholders—if they fail to perform, and real rewards if they succeed;
- private companies are more efficient than government-owned ones because they are free to focus on commercial objectives, rather than being subject to political interference regarding service levels and quality, pricing policies, investment strategies, etc; and
- private companies are free to raise capital outside of the government's capital-raising and borrowing policy framework.

Privatization reduces governments' conflict of interest as the owner of a specific monopoly business and the agency responsible for regulating the industry in the general interest. As owner of Telstra, it was in the Government's financial interest to extract as much monopoly profit as possible from consumers. But as economic manager and regulator, its responsibility was to look after the interests of consumers.

Privatization means that taxpayers are no longer required to underwrite commercial risk. Shareholders investing in private banks accept the risk that the bank will fail or under-perform in the hope that it will make a profit. Taxpayers had no choice but to pick up the costs of the losses and failures of State-owned banks and financial institutions in the early 1990s. Taxpayers should not be obliged to underwrite the risk of essentially commercial enterprises.

The Labour Market

The parties examined differed greatly in the extent to which they wished to regulate the labour market. In essence, all see labour market regulation as a defence against wage competition and a means of maintaining living standards. Many see labour market programmes as a means of reducing unemployment.

The problem with this approach is that living standards are ultimately determined by productivity. To the extent that labour market regulation inhibits productivity growth it undermines average living standards. Further, the cost of maintaining minimum wages above levels which match supply to demand is higher unemployment—that is, a labour market that fails to clear. There are other, better ways of ensuring that the living standards of the low-paid are underpinned, without denying the unemployed access to jobs.

Immigration

All the parties examined supported greatly reduced or zero net immigration, and all justified this policy on environmental not social/cultural/racial grounds.

The environmental case against immigration is far from proven. At its extreme (see for instance Tim Flannery's *The Future Eaters*), environmentalists see sustainable population as that which can be supported by the immediate environment. Flannery presents a persuasive case that human populations have on occasion collapsed as they exhausted available resources, and a (less) persuasive case that humans have an unavoidable tendency to exhaust and degrade new environments before reaching ecological balance. But the reality of most human societies over the past few millennia has been that the combined processes of trade and specialization have allowed sustainable societies to exist without reliance only on immediately available resources. Otherwise, Japan, Luxembourg and Switzerland would be impoverished countries with low population densities.

There is, of course, a less extreme case for population control which relates higher population levels to greater environmental stress. But there is no definitive formula specifying how much population is too much, and if there were, it would be constantly changing as environmental practices and technology change.

THE REALITY OF MOST HUMAN SOCIETIES OVER THE PAST FEW MILLENNIA HAS BEEN THAT THE COMBINED PROCESSES OF TRADE AND SPECIALIZATION HAVE ALLOWED SUSTAINABLE SOCIETIES TO EXIST WITHOUT RELIANCE ONLY ON IMMEDIATELY AVAILABLE RESOURCES

Australia has reaped substantial benefits from its relatively high immigration intake. Migrants bring human assets (education and experience) and financial assets which contribute to Australia's economy. Rising population brings benefits in the form of higher demand for housing and consumer goods. This demand in turn generates beneficial spin-offs through-out the economy. It is no coincidence that the Australian States which usually record the fastest economic growth (Queensland and Western Australia) are also the States with the fastest population growth.

Appropriate migration policy is a complex issue which must be shaped in the context of labour market, economic, social, and environmental considerations.

There is no proven case that Australia's current population level is environmentally unsustainable, or that migration should cease.

Common Political Threads

It is perhaps somewhat surprising that political parties which are perceived to have widely different agendas and to sit at opposite ends of the political spectrum should have so much in common.

Certainly, it is not the aim of this paper to underplay or discount the profound policy differences between these groups, especially on racial, environmental and social policies.

But their common policies are more than coincidence. They reflect a common basis of disenchantment with the economic policies of the mainstream political parties which will inevitably reflect itself in support for alternative parties. They are based on a sense of loss of economic and political control in the face of a globalizing economy, a perception that the standard of living and quality of life of many Australians is deteriorating, that governments have no solution to hard-core economic problems such as unemployment, as well as antipathy to 'big business' interests and the perceived agenda of policy elites.

The 'right-wing' parties' support is a backlash against 'political correctness' and further evidence of a growing rift between urban and rural Australians and between the 'golden triangle' of Sydney-Canberra-Melbourne and the rest of Australia. This latter divide in particular was highlighted at the last Federal election, when Labor won just 18 of 94 seats outside of the 'Triangle'. They contain elements of nostalgia but are also rooted in deep Australian political traditions of both left and right. They derive some credibility from the fact that the groundwork for their economic nationalist policies has been well prepared by the older minority parties and by groups as diverse as unions, sections of the ALP, charities and churches who have publicly criticized economic rationalism. And they provide a base for a wide and perhaps unlikely range of support, such as the surprisingly high proportion of immigrants among One Nation supporters and candidates.

Nor is the politically-correct wing of the economic nationalist spectrum entirely innocent of a xenophobic shade to its anti-internationalism. The international trade component of the Greens' and Democrats' economic policies is based on a series of questionable or wrong assumptions:

- that trade and international competition are zero-sum games, in which Australia can only win if others lose, and vice versa;
- that imports are inherently bad but exports are virtuous (for example, The Australian Greens are concerned at the 'erosion of local culture in the face of imports that have a strong cultural element such as films, electronic media, music and food');
- that Australian culture and living standards are under threat from competition from low-wage or environmentally-destructive countries and that we must be protected from competition which will drive us all to a lowest common denominator of dirty industry and low wages;
- that Australian sovereignty is undermined by voluntary entry into multinational agreements and treaties on international trade and investment (but not, apparently, on human rights, indigenous rights, labour standards or the environment);
- that Australia has every right to damage the living standards of foreigners by imposing economic sanctions on countries whose human rights or other policies we find distasteful; and
- that foreigners' engagement in economic activity in Australia is intrinsically undesirable, to the extent that it is acceptable to expropriate their property.

Issues for Public Policy

Whether they originate from the political left or the political right, the policies of economic nationalism have the potential to do enormous damage to Australia. Even though the advocates of radical economic nationalism are unlikely to win government in their own right, they could hold the balance of power in the Senate. Further, support for 'economic nationalist' policies is so widespread that it would be inappropriate and potentially damaging to continue dismissing them as too absurd to be worthy of attention. Paul Kelly commented in the *Australian* (17 June 1998) that 'Pauline Hanson's One Nation Party is now a parliamentary force and deserves to be taken seriously'. This is especially true as many of the policies it advocates are also central to a range of other political parties and groups, even though the various groups may believe that they advocate those policies for very different reasons. In addition, the depth and breadth of support for these views across the community means that the mainstream political parties will be unable to ignore them. Elements of the Labor and National parties, in particular, appear to be moving closer to them.

ECONOMIC NATIONALIST IDEAS DESERVE TO BE CRITICIZED AND OPPOSED IN THEIR OWN RIGHT—REGARDLESS OF ANY OTHER BAGGAGE THAT MAY BE ASSOCIATED WITH THEM IN PARTICULAR CASES

The economic nationalists share a narrow and mistaken view of Australia's economic interests. Because of their great potential to do much harm to Australia, economic nationalist ideas deserve to be criticized and opposed in their own right—regardless of any other baggage that may be associated with them in particular cases.

These ideas do, however, have a fairly broad currency in the general population. It is essential, therefore, that the debate not be merely an activity of policy 'elites' but be conveyed to the wider electorate.

Economic nationalism gets much of its power from appealing to patriotic feeling and to various fears and insecurities. Those who wish to criticize such ideas should point out that it is in fact those who are in favour of opening up Australia to the outside world who have far more confidence in the capacity and skills of Australians than those who would forgo the enormous advantages of international trade and investment because of a series of largely specious fears. Economic nationalism also assumes a level of competence, knowledge and guaranteed honesty in public officials which seems highly inappropriate—even dangerous. It is ironic that parties whose support is drawn largely from voters disillusioned with politicians and bureaucrats have built their economic platforms around giving more power to, and putting more reliance on, government. Economic nationalist ideas should be opposed because they are wrong; and are not as difficult to argue against as many commentators seem to fear.

ABOUT THE AUTHOR

Lyndon Rowe has been Chief Executive of the Chamber of Commerce and Industry of WA since 1990. Lyndon definitely sees no reason to be uneconomic or irrational.

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Selected Policy Positions of Political Parties Supporting Economic Nationalism

	One Nation (Pauline Hanson)	Australian Democrats	Greens	Australia First (Graeme Campbell)	Advance Australia (Rex Connor Jnr)
Restrict foreign ownership	Restriction of foreign ownership of Australia major goal and will support measures to 'curtail foreign control' and to restrict foreign ownership of land.	Strengthen restrictions on foreign investment including a Foreign Investment Review Commission for all foreign investment to be judged for 'net economic benefit'. Introduce a register of foreign owned assets.	Foreign Investment Review Board to scrutinise all investments of $5 million or more.	Bring foreign ownership and investment 'back under control'. Certain public facilities to remain in Australian hands—city water supplies, communication facilities, public transport facilities, emergency services.	Continues the tradition of Rex Connor Snr, the man who wanted to 'buy back the farm'.
Trade protection	Tariffs to be at least equal those of trading partners, to be sufficient to prevent 'unfair' competition and to preclude competing imports from countries 'which provide no reciprocal export opportunities'. Quarantine restrictions to be strengthened	Impose import quotas, halt and reverse tariff cuts up to WTO/GATT limits plus higher tariffs to protected 'threatened' industries and impose surcharge on luxury imports. Ban environmentally damaging imports.	Strict monitoring of import and export prices to prevent transfer pricing. Limit trade in goods and services produced by environmentally unsustainable or socially unjust methods.	Hostile to free trade, sees a 'legitimate role for import quotas and tariffs' and in favour of government purchasing to 'buy Australian'.	Re-introduce tariffs on manufactured goods. Stop all 'unnecessary' importation of food products.
Reduce participation in liberalising international agreements	Oppose MAI and require full and open consultation before any involvement in multi-lateral trade agreements and treaties.	Oppose MAI	WTO and ILO to be amended to ensure 'full recognition of the overriding necessity or environmental and social arrangements'.	Oppose MAI. No treaty that 'compromises our sovereignty' to be signed without the mandate of an election or referendum.	
Re-regulate financial sector	Establish government sponsored national bank to provide low interest loans to primary producers, rural industries, new industry/manufacturing ventures and small business.	Government to regulate housing interest rates and to direct financial institutions to provide 'affordable finance' to specified categories of borrowers. Increased control over creation of credit by banks and building societies. Government supervision of foreign exchange transactions.	Banks to be required, as part of licence, to undertake 'substantial social obligations and subsidise operation of accounts with low balances without higher charges'. Restrict power of banks to foreclose, require them to take responsibility for 'odious' debt and to fully inform borrowers of risks.	Re-establish the Commonwealth Development Bank as 'the source of development finance for new and growing productive businesses'.	Re-regulate banking and financial sectors. Low interest, long term loans for first home buyers
Targeted industry assistance	Provide incentives for small slaughtering operations, aquaculture, farm forestry on private land, fuel and registration incentives for rural industries, provide funding for beef marketing initiatives, continue regulation of farm gate milk prices.	Government incentives for export and import-replacement industries, for high-technology industries, environmentally sensitive tourism, human services, recycling, small business, co-operatives.		Industry policy to 'identify industry sectors with growth potential and support them with sensible bounties, taxation incentives and accessible finance...use government purchasing policy ...to give these sectors a sound domestic base'.	
Taxation changes		Tax threshold steadily raised to poverty line and then indexed with rapidly increasing progressive taxation for income more than five time average after-tax income. Introduce wealth tax for assets of $1 million or more and introduce inheritance tax. Replace payroll tax with land tax, with additional tax for land not used for economic or conservation purposes.	Increase tax as a share of GDP with tax system to be progressive with increased Medicare levy. Introduce inherited wealth tax for assets of $1 million or more. Tax to penalise environmentally destructive behaviour and reward environmentally beneficial behaviour, shift from taxing labour income to taxing capital and resource income.	Taxation system to encourage investment 'in productive industry and not mere property development and speculation'.	Review all taxation scales. Increase benefits, via tax incentives and other means, for the traditional family.

Selected Policy Positions of Political Parties Supporting Economic Nationalism

	One Nation (Pauline Hanson)	Australian Democrats	Greens	Australia First (Graeme Campbell)	Advance Australia (Rex Connor Jnr)
Taxation changes (continued)		Oppose broad-based consumption tax.	Replace existing sales tax system to improve efficiency and transparency, introduce a service tax, and differential rate on luxury items.	Sceptical about a GST	Reject any GST
Oppose privatisation	Halt privatisation of 'valuable assets'.	Privatisation is 'selling family silver' and generating a net loss of revenue, oppose privatisation of Telstra and other government businesses. Require public inquiry to demonstrate public benefit and consumer impact statement for all privatisations.	No privatisation of essential government business enterprises such as water, electricity, roads and communications.	Against privatization of natural monopolies	Return to a 'genuine "mixed" economy with a strong, effective & efficient public sector'.
Regulate labour market	State and Federal Governments to set minimum levels of wages and fundamental work conditions. Require builder to purchase a bond for coverage of debts to sub-contractors before each job.	Indexation of basic award components and introduce effective price controls. Provide paid retraining at all age levels. Introduction of industrial democracy and democratic control over key elements of industry and increase staffing of regulatory agencies. Introduce guaranteed basic income ultimately to replace all income support measures and 'ensure that people may move in and out of formal employment with dignity and without fear for their livelihood'. Require formal accounting on the status of women and disadvantaged groups in their workplaces for all bodies of 30 employees or more. Require all enterprises to employ on the basis of equal pay for equal work and all awards to contain provisions for paid and unpaid parental leave. Require all medium and large enterprises to provide childcare.	Support maintenance of system of industrial awards and processes of conciliation and arbitration and legislation to establish a Charter of Workers' Rights. Recognition of right of all workers to be involved in participatory planning. Support 'highest standards of workplace health and safety'.	Support traditional industrial relations arrangements.	Support traditional industrial relations arrangements.
Reduce immigration	Zero net immigration—immigration levels to equal emigration levels.	Zero net immigration—immigration levels to equal emigration levels.	Voluntary immigration program to be reduced as 'part of a strategy to achieve eventual stabilisation of the Australian population'.	Immigration to be reduced to zero net immigration.	Temporary halt to all immigration until unemployment problems solved.
Oppose competition policy	Eliminate those elements which currently inhibit or prevent operation of peak rural industry bodies, producer contribution to decision-making, dairy supply management system and co-operatives and producer marketing bodies.	Closely monitor operation of competition policy to ensure interests of regional areas, low income families, small business and the environment are addressed which 'clearly they have not been to date'.			
Taxing or restricting flow of financial investment		Disincentives for movement of financial funds and services overseas including small tax on foreign exchange transactions.	Tax system to discourage foreign debt and foreign speculation via 'Tobin tax' on foreign exchange.		