WHY WE NEED A NEW ECONOMIC VISION
THERE’S NO SURVIVAL WITHOUT EXCELLENCE

In economic terms, a borderless world is emerging. Old (but real) boundaries, reinforced by legislation or cultural tradition, are becoming anachronistic or artificial. Economies are being judged on global “best practice” rather than on regional, national or historical standards.

Within one or two decades, more than half of world trade will be in services (compared with 35 per cent in 1990), the majority of which do not lend themselves to legislative control in the way that a physical goods economy once did. Given that more than two-thirds of modern domestic economies are now based on services, most of the rules of the past have become irrelevant.

Market economies are clearly outstripping the command or regulated economies which emerged in the immediate post-war decades. Australia is nearer to the latter than the former, with serious consequences which have become clear during the late eighties and early nineties.

The role of governments worldwide is undergoing a metamorphosis that sees them, one by one, return to their raisons d’etre as social leaders, legislators and police, defenders, facilitators of wealth creation, and limited distributors of wealth to disadvantaged minorities.

Global change will impose horrendous pressures on governments as we enter the 21st century. Those which are overly concerned with dogma and ideology, at the expense of realistic economic and social climate-setting, face eventual extinction. (The decline of two ideologies that fought toe-to-toe in the twentieth century is discussed in the box, next page.) The rules for economic review, planning and stimulation are changing.

Macro-economic modelling and fine tuning will continue as necessary “housekeeping”, but the new economy will actually be created at the micro-economic or market/business level, through new needs by overseas and domestic customers on the demand side, and true entrepreneurs and strategic entrepreneurial alliances (including international) on the supply side.

The 65 per cent factor

One of the fears of those charged with economic planning and leadership is that the competitor nations and blocs of the “outside world” will threaten nearly every initiative. This is an unfounded fear, partly because trade (imports or exports) between economies rarely exceeds 15 per cent of their GDP.

A very large proportion of a domestic economy is under no threat at all from outsiders. Indeed, in most

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modern economies the industries listed in Table 1, representing more than 65 per cent of GDP, are “safe” because of geographic or other realities.

A state or national economy builds its growth and excellence on:

- Setting global “best practice” and productivity goals for its “safe” 65+ per cent industries (see Table 1) with appropriate technology and scales of economy for its population size and national resources.
- Selecting areas of uniqueness and excellence from the residual 30-35 per cent of the economy to optimise its traded sector (say, 15 percent of GDP), and defend the remaining vulnerable (to imports) 15-20 per cent.

It is important to know that the first step is to maximise the efficiency of the safe 65+ per cent. This requires acknowledging that the real enemy is always within (poor planning, indolence, ineptitude etc.), rather than without (ie, other countries).

Recent comment on this subject has centred on infrastructure deficiencies, misguided fiscal and monetary policy, excessive internal regulation, poor business and union leadership, non-existent productivity gains and other shortcomings.

The criticisms are justified. One cannot build tradeable excellence (even for the minor 15 per cent of GDP) and defend a further 15-20 per cent of GDP on a poor “infrastructure”. One cannot grow economic crops in an economic desert.

The IBIS Economic Health Index (Fig. 1) shows how poor this “infrastructural” economic climate now is, compared with other periods in the twentieth century. It is a salutary reminder that we are a disgrace to our forebears, and at this juncture a disgrace to coming generations. We seem not to have the economic wisdom, vision, courage and leadership of our earlier periods, or of many other countries today.

If we assume that the above economic issues are being addressed at national and state levels, it is then appropriate to ask: where does one start on the task of building uniqueness and excellence in the 15 per cent tradeable component of GDP?

Some propose an “engines of growth” approach, seeking those industries that seem capable of generating wealth and which possess good “multipliers”. This didn’t work two hundred years ago, one hundred years ago or ten years ago. And it won’t work now — not as a starting point.

Some begin with a region’s natural resources and seek more development and more “value-added”. This, in isolation, has never worked either, even though it is obviously a vital component for Australia’s growth and uniqueness.

Some begin with macro-economic policy settings, such as lower interest rates or subsidies, but this is nothing more than fiscal morphine or heart-starters. Of course, a full-blooded clean-up of economic health is a pre-condition of growth, but not an end in itself in terms of pro-active and sustained growth.

Some believe community inspiration, jingoism and rhetoric can kick-start an economy. We have been

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**TABLE 1: SECTORS SAFE FROM EXTERNAL THREAT**

<table>
<thead>
<tr>
<th>Ownership of dwellings (imputed GDP value)</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community services (education, health etc)</td>
<td>90%+</td>
</tr>
<tr>
<td>Recreation, personnel and household services</td>
<td>85%+</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>All</td>
</tr>
<tr>
<td>Construction</td>
<td>All</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>95%+</td>
</tr>
<tr>
<td>Utilities</td>
<td>All</td>
</tr>
<tr>
<td>Transport and storage</td>
<td>80%+</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>30%+</td>
</tr>
</tbody>
</table>

And parts of remaining industries

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**THE NEW OWNERSHIP PHILOSOPHY**

Socialism and capitalism were the twentieth-century alternatives for industrial economies, replacing feudalism in its traditional and modified forms of previous centuries. Both produced higher standards of living for citizens, although it is difficult to separate the contribution of “industrialisation” from the contribution of style of ownership.

It has become clear that socialism and communism — as practised — have ceased to be effective. Capitalism — as practised — is plateauing. While it is simplistic to say that socialism was more concerned with dividing the cake than making it, and capitalism was more concerned with making the cake than dividing it, there is some truth in the observations.

The irony is that quite often income distributions were more even in essentially capitalist societies than in socialist ones.

The inability of either system to cope with the post-industrial age arises from several factors:

- the move to a services economy dominated by information (quaternary) and recreation (quinary) industries;
- a more educated, less subservient workforce;
- the diseconomies of large structures;
- the lack of economies of scale in small enterprises (sole traders, partnerships, small incorporated entities), especially in farming, retailing, construction and many service industries;
- the advance of micro-technology and micro-systems, creating effective smaller-scale business units (although usually larger than traditional small businesses);
- a growing distrust of collective welfare under capitalism (patronage, paternalism, superannuation schemes etc.) or socialism (patronage, bureaucracy, retirement schemes etc).

The new order incorporates the best of both preceding philosophies and will be manifest in:

- franchising across most industries and sub-contracting across all industries, to encourage and facilitate more participation in the creation of wealth under the umbrella of large organisations (modified capitalism); and
- the growing trend of ownership of property (land, buildings and fixed assets) by pension and superannuation funds and other financial institutions that rent or lease the assets (modified socialism).
there and done that to the point of creating a blaze if not cynical business and social community. It is called flogging a dead horse.

Some believe all the clever people, and the novel ideas and inventions, can be marshalled as catalysts or seed-points for new industries and new growth. But how do we identify which of the tens of thousands of concepts — crackpot and good alike — will work?

No, none of these is the answer in itself, although each has a vital and supportive role.

Curiously, our forebears understood the problems and solutions much better than today’s sophisticated, “smart” generation, which has tended, unconsciously, to live off the crown jewels bequeathed by yesterday’s wealth-originators.

Their success came from observing a few basic rules which must again become the cornerstone of Australia’s new economic approach:

1. Understand the marketplace
   This includes being alert to overseas needs and trends, national needs and trends, and local (state) needs and trends. That is what the wool pioneer John Macarthur did two hundred years ago and what hundreds of others after him did in relation to export markets. It is what Vic Richardson of Victa lawnmower fame, and hundreds of others, did in relation to domestic markets.

2. Identify the “safe” market and optimise its performance
   This involves recognising the imperative of “best practice” in the 65+ per cent of the economy that creates the bulk of the wealth for citizens.

   To this should be added the 15-20 per cent of the economy that will need defending, also through “best practice” (and at times some tough tactics, like those other countries employ). In all, this constitutes some 80-85 percent of the economy.

3. Encourage and exploit a new tradeable sector
   This means thorough, patient, long-term development of international market niches. What are today’s equivalents of yesterday’s wool, agricultural equipment and other success stories?

   The new markets are to be found not in Europe or America, but in the Asia-Pacific region — which is graphically closer, bigger (1.8 billion people) and faster-growing in terms of GDP than any other part of the world.

4. Match resources to market opportunities
   The asset register of natural and developed resources and intellectual resources needs to be matched to the external market opportunities. Only some will be relevant.

   The result of this rigorous approach will not be a dramatic change in Australia’s industry mix, at least not at the macro-level. Australia’s industry mix is not much different from those of other modern economies — most of which are doing much better in standard-of-living terms (if not quality-of-life) than Australia. The US, Holland, Switzerland and more than a dozen other countries have industry profiles similar to our own. This should remind us that what we do is not nearly as important as how well we do it.

   The real imperative, if we are to rejoin the real world and refute the “Buffoons of Asia” tag so hurtfully used in one leading newspaper recently, is to make the non-threatened sectors (80-85 per cent of the economy) perform as they should, can, and must do.

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so — not even a supposedly liberal British government.

As for the “flying geese”. It is the lead goose, Japan, which holds the cards. Add all the other geese together and multiply by three and you still do not equal Japan’s GDP. Because of that FDI revolution I spoke of, Japan’s moment to take the lead in GATT has come, just as Germany has suddenly become aware that it is no longer in its best interests to support the CAP that blocks the GATT round. So an increasingly international Japan, facing increasing competition from other Asian economies, will see that it will profit from an improved GATT, not be punished by it.

Five points to summarise:

- In the “one-mountain world” tensions between styles of capitalism will be one of the arguments that replaces the old clash of ideologies.
- Increasingly intrusive trade and investment, and the rules which govern them, will form the battle ground.
- Culturally similar countries or regimes find it easier to write the rules of trade blocs than dissimilar ones.
- Despite this, the “flying geese” of Pacific Asia will find it hard to strike any sort of powerful, regional economic pact quickly, however much they may talk about it.
- Their best bet, and that of Australia, remains the GATT and its Uruguay round. This hangs in the balance but when one adds up the self-interest of the world’s biggest economies, and watches how Japan and Germany are waking up to that self-interest, I believe it still has a chance.