LESSONS FROM "BRENTRY"

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INTRODUCTION

The United Kingdom (UK) chose, in a referendum, to leave the European Union (EU) in June, 2016. The competing *Leave* and *Remain* campaigns related to "Brexit" have been heavily analyzed and the claimed consequences of Brexit, good and bad, subject to even greater debate.

In fact, significant guidance (so far left largely unexamined) from more than four decades ago on how outcomes may unfold after a major re-setting of the macro-economic framework may be drawn from the repercussions of "Brentry". Britain joined the forerunner to the EU, the European Economic Community (EEC) on January 1, 1973. That decision was subsequently ratified in a UK referendum in 1975.

Although unsystematic in many respects, *Imperial Preferences* and then *Commonwealth Preference* played a crucial role in shaping the macro-economic trade framework for a range of key members of the British Empire (subsequently the British Commonwealth). Australia and New Zealand were especially affected - Canada, with it heavily US-intertwined economy, less so.

This review focuses on Australia.

BRENTRY AND AUSTRALIA

At the time of Brentry, Australia retained a significant manufacturing sector, which made everything from textiles, toasters and motor vehicles to trams, trains and agricultural equipment, using mainly Australian component materials. It operated behind very high tariff walls and other protectionist measures. This “Fortress Australia” approach, as it was sometimes know, was crafted as a crucial part of the compromise needed to secure final agreement to create the new federal Nation-State of Australia in 1901.

It was clear that, without such sheltering, most of Australia’s manufacturing sector could not survive. By the 1960s, this fact was made even more starkly evident by the surge in remarkably successful Japanese imports – despite the very heavy import-taxation imposed on them. Across this same period, a wide range of Australian agricultural products enjoyed preferred access to the UK market.

The President of France, Charles de Gaulle, had vetoed UK entry into the EEC twice, first in 1963 and then in 1967. After 10 years as President, de Gaulle lost office in 1969. He died in 1970. A key aspect of de Gaulle’s hostility to UK entry into Europe was Britain’s close linkages to former British Empire members, under the British Commonwealth regime. The passing of de Gaulle allowed for a renewal of the UK project to join Europe. As a condition of Brentry, however, the UK still had to sever all remaining Commonwealth preferences.

Australian butter exports to the UK plunged by around 90% and apple exports declined by over 60% in the years following Brentry – such was the impact of the EEC Common Agricultural Policy with its array of heavy subsidies. The paramount initial experience of Brentry, in Australia, combined cultural and economic shock with a mood of deep concern about a future now rendered far more uncertain. “Abandonment” and “betrayal” were terms commonly used, at the time, to describe how Australia had been treated by Britain.

Apart from Brentry, other factors fed this glum expectation that the long-term worst was yet to come. The first “oil shock”, following Israel’s success in the Yom Kippur War, saw oil prices increase by over 400% in 1973-74 (no more cheap energy). President Nixon, meanwhile, had floated the US dollar in 1971 (effectively ending the Bretton-Woods era of exchange rate stability) leading to major disruption within international trade systems.

All these jolts amplified the immediate mood of despondency – but they were also elemental in driving serious change. First came the Whitlam Labor Government (1972-1975) responses from Canberra, which included: the radical (and highly controversial) across the board 25% cut in tariffs in 1973 (around six months after Brentry); and the establishment of Australia’s first significantly powerful competition law (and competition authority). The government did not have a clear (let alone, agreed) vision of how Australia’s macro-economic framework should be changed – but it could plainly see, that life could no longer go on as before.

Significant tax and other economic reforms began during the period of the Fraser Conservative government (1975-1983). Australia's share of world trade dropped by 50%, in the decade after 1973, however.

More comprehensive change, still, came with the election of the Hawke-Keating Labor Government in 1983, including: coordinated, comprehensive tariff cuts, major tax reform, floating of the Australian dollar; financial sector reform; education sector reform; and measures to open up the Australian economy to enhanced competition and investment and to greater levels of international trade.

Subsequently, the Howard Conservative government (1996 – 2007) oversaw the further fundamental operational transformation of the Australian economy building on the two decades of earlier, post-Brentry, foundation-shifting noted above.

Since 1990, Australia has seen continuous growth. It is expected that, before the end of 2017, Australia will surpass the record of 26.5 years of uninterrupted growth held by the Netherlands (1982 – 2008). This Australian growth story has been maintained notwithstanding the onset of both the Asian Financial Crisis (1997 – 1998) and the Global Financial Crisis (2007 – 2008); the latter crisis being the one which helped trip-up The Netherlands. By 2016, Australia's basic GDP, expressed in US dollars, was almost four times the figure for 1990 (the comparative raw (US Dollar) figures - for the UK: 2.2 times larger; for the US: 3.1 times larger; and for China: 28 times larger).

Before 1990, the Australian economy was beginning to change greatly and that change has become more dramatic since. Natural resource exports remain a central factor but service-related exports (both offshore and onshore) have increased stunningly. Two examples stand out. International, onshore and offshore education services (from secondary education up) have soared - provided especially to China (but now, also, to India and a range of other jurisdictions). Tourism services have enjoyed similar levels of striking growth. Mining and agriculture today contribute around 12% to total GDP in Australia. The entire service sector comprises close to 80% of GDP today (compared to around 60% at the time of Brentry). Over this period, manufacturing employment has dropped from about 25% to 10%.

Good fortune has certainly benefitted Australia - but in a manner not foreseen at the time of Brentry. In 1973, China remained in the grip of the terribly violent and economically destructive Cultural Revolution. In 1978, following the death of Mao Zedong in 1976, the Open Door policy (of Deng, Xiaopeng) was announced, however. Since then, China's basic GDP, expressed in US Dollars has grown by around 40 times. Using a Purchasing Power Parity measures, the basic multiple is around 75 times. This level of growth across such a relatively short time within a major nation (still with the World's highest population) is quite unprecedented. Australia, more than any other trading partner, was ready and well equipped to take remarkable advantage of this astonishing growth. China became (and remains) Australia's number 1 trading partner.

Australia has maintained a positive trade balance with China over many years with that balance currently exceeding A$10 billion annually.

ANALYSIS

The macro-economic adjustments outlined have not been painless. There have been strong, grassroots or populist responses politically, in Australia, both in the 1990s - with a resurgence more recently. These movements have been successful to a degree. But Australia has faced far less “left-behind” impact and disruption than either the UK or the USA over the last 2-3 decades.

Briefly, although Australia’s manufacturing sector was significant during the protectionist era, it was never so fundamental as in, for example, the UK and the US, so that its substantial decline was less economically and politically traumatizing. Next, the rapid and immense turn-around in trading income related to China also provided a major boost to the health of government finances. In 2012 Australia net public debt was one of the lowest within the OECD group of countries. In 2015 (after growth in China began to slow) it still remained comparatively low - government liabilities stood at around 36% of GDP. In the same year, comparable figures included - the UK: 103%; the US: 106%; Canada: 94%; and Japan: 233%. Successive Australia Governments were, thus, in a position to take measures both to support economic transition and to cushion the harshness arising from that transition.

One area of government-fostered expansion which assisted notably, in both respects, has been the major development of the education service sector, predominantly at the tertiary level. Onshore (and offshore) international education now generates around A$20 billion (over US$15 billion) per year for Australia, making it the third largest export sector. The total number of international onshore students exceeded 550,000 in 2016.

Looking back over the last 44 years, we can see that providence has played a significant role (overwhelming the rise of China) in shaping the positive outcomes just outlined. However, there was zero sign of any impending Sino-uplift as Brentry took effect. China was still mired in the terrible political and economic disorder arising from the Cultural Revolution in 197, with no end to this misery in sight.

The full explanation of how Australia came to remake itself is more actively complex. In particular, successive Australian Governments, both Labor and Conservative, have largely provided firm and effective leadership as they tackled the long task of reshaping Australia's fundamental macro-economic settings. Also, in the main, the Australian working population responded with effective flexibility in adapting to these new economic circumstances, repeatedly taking up fresh educational and career opportunities.

Has Australia crafted some sort of close-to-perfect outcome with its post-Brentry economic reformation – certainly not. But this is not the right question – what we should ask is, has Australia made a strong comparative success of rebuilding its economy in fundamentally new ways since the shock of Brentry? Here the answer is plainly, yes. And when we ask, did successive Australian Governments take the right message from Brentry – that this was a harsh but very clear signal to adapt, reform and move on, the answer is, again, yes.

Interestingly, one response to Brentry in Australia, in the early 1970s (once it was clear that it was set to happen), was to discuss whether Australia might be able to join the EEC along with Britain, in 1973, or soon after. Although geographically and economically this proposal was difficult to argue, it was still seriously considered at the time. Looking back, it is clear that the failure of this proposal to gain any real traction can be fairly understood as "a bullet dodged". Fundamental to the successful reform of the Australian economy post-Brentry, was Australia's sovereign independence to make its own macro-economic decisions. Had Australia somehow joined the EEC by the mid-1970s, certain shorter-term advantages would likely have been secured. But Australia's capacity to make the kind of independent economic decisions manifestly required to create the reshaped Australian economy of today, would have been deeply compromised by any such EEC membership.

A recent Sino-Australian exchange is indicative of how well Australia has built a new, more independent, Asian-based, identity over the last 3-4 decades. Wang, Yi, China's Foreign Minister noted at that gathering that Australia "can continue to be an ally of the US and, at the same time, be a comprehensive strategic partner for China."

The story of the successful transformation of the New Zealand economy, which was even more gravely affected by Brentry, is similar. New Zealand delayed formulating any pervasive reforms post-Brentry until the mid-1980s. Then, however, a wide range of radical economic policy changes were implemented swiftly. A long-time supporter of the highly protected economy in New Zealand, Roger Douglas, eventually became convinced that only dramatic changes to New Zealand's macro-economic settings could save the economy. As in Australia, it was the (New Zealand) Labour Party which first determined that New Zealand must face up to the latest, unwelcome economic reality. When he became Finance Minister in the new Labour Government in 1984, Douglas began sweeping away decades of economic orthodoxy, related to trade, competition, tariffs, taxation and currency-settings, for example. Since these reforms, in raw GDP terms (expressed in US Dollars) the New Zealand economy has grown to around four times its size in the mid-1980s.

CONCLUSION

Some clear primary lessons arise from the Brentry responses analyzed above. First, sovereign independent nations retain real flexibility to undertake major policy shifts. Next, strong, clear and effective leadership is needed to craft sound, major policy-change responses. Provided these do generate more positive outcomes than otherwise (a large but far from unrealistic expectation) both political bipartisanship and notable popular support can consolidate the reform process over time, further enhancing the prospects of success.

The former Head of the Australian Treasury, Ken Henry, recently noted that, although political debate was both partisan and adversarial during the transformative decades discussed above, the contest of ideas, then, helped to energize the development of effective policies. He also remarked that, today, partisan political debate in Australia (in common with much of the developed world) was far more devoted to firing continuous political insults from deep trenches – stale-mating major policy development.

Will Brexit work to make Britain better? This narrative does not prove that this must be so. But it does suggest that Brexit has firmly opened the door for this to happen in ways which could not be contemplated had the UK chosen to remain in the EU. The enhanced potential, today, for log-jamming serious policy development as the quest to secure short-term advantage dominates political positioning, must be faced up to, however, and bested.

The negative aspects of "globalization" have been increasingly in the spotlight. The way in which this phenomenon has led to the growth in increased, startling disparities in wealth is area of intense critical study. The experiences of Australia (and New Zealand) and China, in particular, showcase the clear, positive aspects of enhanced globalized trading, however. The figures above speak for themselves. Still more affirmative are those World Bank statistics from China showing over 800 million people lifted out of abject poverty across the last several decades: this is an unprecedented, positive human achievement, firmly founded upon the striking trading opportunities created by globalization.