

may be of future benefit, but without a clear framework of priorities and possible action. This reflects the 'state of the art', and should not be seen as a flaw in this book *per se*. Questions such as, "Where should we be going?", "What are realistic objectives in the short and medium term?", and "What policy options exist for achieving these objectives?" emerge from the text, and stimulate further thought and debate. Perhaps the most significant contribution of this book could be the realisation by some practitioners that symposia such as this must at some stage give way to working conferences aimed at developing practical strategies for future development.

Cynics might see this conclusion as being naive or whimsical. But having been told that we must harness our human potential in all its forms if we are successfully to meet the competitive challenge of economic realities in the years to come, then the next step must be a clearer definition within the community as to our priorities. This might go a long way towards resolving suggestions by specific groups that more action is required by *other* groups if we are to progress. Development on these lines is especially appropriate to work within ANZAAS, given its emphasis on co-operation among disciplines and sectors.

In sum, this book makes a positive contribution to the development of human resource planning in Australia, providing a range of opinions and prophecies. The reader should be warned, however, that it raises more questions than we can as yet answer. Additional issues, such as ongoing training, retraining, the skill dimension in leisure, barriers to labour market participation, and regional needs, also need to be addressed. The book is particularly welcome in light of the recent Inquiry into Labour Market Programs, and the emerging government responses. ANZAAS can be congratulated for having made the symposium proceedings so readily available.

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Government Purchasing and Offsets Policies in Industrial Innovation Report by the Australian Science and Technology Council (ASTEC)
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ASTEC's charter is to advise the government in respect of a diversity of matters relating to science and technology; one such matter being the fostering of scientific and technological innovation in industry. An investigation of the role of government purchasing and offsets policies in industrial innovation appropriately falls within the purview of ASTEC.

Regrettably, it was probably with some haste that the Council considered the role of offsets in light of the then foreshadowed Inglis Report of the Committee of Review on Offsets.¹ The opportunity was timely but nevertheless foregone, for a major contribution on offsets from an independent body of the stature of ASTEC with the breadth of resources available to it. Most regrettable is the consequent possible diminution of the product of the Inglis Committee deliberations.

In stating the aim of the Report as being "to foster a climate where the expenditure the Government has to make on goods and services is used more effectively to benefit the Australian economy in the long term" (para. 1.2), ASTEC admits to deficiencies in the impact of the current government purchasing and offsets policies, from which one might presume that the mere existence of these same policies would be questioned. But not so. In making recommendations on offsets policy, the Council indisputably accepts offsets "on the premise that the Government will wish them to continue, at least for a significant period" (para. 1.15).

If it was that all economies with which we as a nation prefer to be ranked, actively practised a formalised offsets program, possibly then it might seem unusual that their worth be questioned. Far from it. The major industrial nations of the West, including the US, UK, Japan, France and West Germany, oppose offsets, whereas NZ, Netherlands and Israel do have formalised offsets programs, while Canada, Spain and Belgium seek offsets but on an *ad hoc*, albeit active, basis. Further it appears general practice overseas that offsets, when sought, are sought only for substantial defence acquisitions. Civil offsets are also required in Australia.

There are good reasons for the highly industrialised nations opposing offsets, not the least being their obligation to arrange offsets with firms in nations purchasing defence hardware. But alternatively, there are good reasons why smaller purchasing nations such as Australia might seriously question the use of offsets, particularly in light of the current groundswell against the use of non-tariff barriers to trade and the growing significance of the phenomenon of countertrade. These smaller industrialising nations might consider closely the effect of such policies (the relative benefits and costs, both existing and potential) on their bargaining power and credibility when seated in forums such as GATT. Unquestioned acceptance of the benefits arising from offsets exceeding the costs seems somewhat delinquent, when considered in its correct context, the broader arena of international affairs.

The Report is in three parts, government purchasing policy and the links between these policies and innovation in Australian industry. Government purchasing policy in Australia is couched within the ethics of commercial fair-dealing and effective, economic use of public funds. But best value for public monies is not necessarily synonymous with the principle of lowest tender price for government purchases. A range of non-price characteristics is considered with a view to ensuring delivery and performance reliability, the availability of spares and servicing, and the enhancement of, and compatibility with, currently used equipment.

Objectives additional to the principle of best value for public funds are imposed on government purchasing practice. These include support for industries of defence strategic significance, encouragement for particular industries of national economic importance, and through the 'preference for Australian made goods' policy, a degree of assistance is extended to local industry. Also, the creation and maintenance of employment in select sectors and the minimisation of severe disruption to existing labour markets enhance the range of objectives which limit the implementation of purchasing policy.

The Report acknowledges, but does not explore, conflicts which might arise from the multiple objectives sought through purchasing policy, and that "using procurement to influence the innovation process can cost more in the

short term'' (para. 2.17). It then asserts these costs can be justified only if they confer additional benefits on the broader community. However, there is little supporting evidence to confirm that the spoils from purchasing policy are widely dispersed. Any evidence is generally supportive of the alternative. The areas in which the Council views procurement as being effective in fostering domestic innovation are where 'substantial' purchases are made and 'scope' exists for quality improvements, and where scale economies in production together with local demonstration of the products in the workplace will enhance that product's competitiveness, both locally and on the export market. The Council then reverts to the much debated practice of picking winners by earmarking a set of industry groups for targeting.

Administrative problems dominate in ASTEC's assessment of purchasing policy. The lack of forward planning and co-ordination of government purchases, creating lumpiness in ordering and militating against longer term planning and continuity of production within industry, is highlighted. Complexity in and the excessive cost of tendering for smaller firms, with bias toward the foreign supplier in the specification of tender documents, are discussed and the non-uniformity of state government purchasing policies is raised as creating inefficiencies and undue fragmentation of industry.

Offsets policy, while falling within the scope of purchasing policy, has its own set of objectives which relate to securing workload of defence or technological significance, technology transfer to Australian industry and providing new employment opportunities. The different thrusts of purchasing policy and of offsets policy are evidenced by the different departments administering them; Local Government and Administrative Services being responsible for the former, and Industry, Technology and Commerce and Defence jointly (as of December 1984) administering the latter. Whereas purchasing policy is viewed by Government essentially as an administrative function (procurement of goods and services for the functioning of its departments and statutory authorities), offsets policy is seen more as an instrument of industry policy.

The Council correctly raises doubts about the duplication of the federal policy with the offsets policy of the individual states, pointing out the risk of industry fragmentation from competing state interests. In commenting on dollar achievements in this area, the available figures are somewhat contradictory and the orders of magnitude are far from flattering. The Council quotes government equipment purchases from overseas since the inception of the offsets program at \$8 billion, commitments to provide offsets at over \$2 billion, approved work programs of about \$1 billion and less than \$0.5 billion of completed work, with by far the majority of this work gravitating to the aircraft and electronics/computer industries. The subsequent Inglis Report quotes figures for the contract value for offsets purposes at \$6 billion, offsets commitments of \$1.5 billion, \$0.7 billion of offsets orders placed and slightly in excess of \$0.5 billion completed. Whichever data are accurate (the Auditor-General having been critical recently of the record-keeping systems of the program), the failure of overseas contractors to complete offsets obligations points to misgivings with the program which were in part instrumental in the commissioning of the Inglis Committee of Review.

Industry concerns with the offsets program include the lack of supporting legislation and inconsistency in application, failure of effective interfacing between government and industry, failure of the program to assist in the marketing of products internationally, the possibility of dumping by overseas firms within Australia and the high cost of demonstrating that local material inputs meet overseas standards. The Council recommends remedy for each of the new concerns, but most significantly that offsets policy be integrated into an overall industry development policy. However, with the Government's recent (December 1984) portfolio reshuffle and the rehousing of civil offsets in the Department of Industry, Technology and Commerce, while defence offsets move to the Department of Defence, offsets policy remains a misplaced vagabond. It is interesting to note that since its inception in 1970, the offsets program has been bedded in no fewer than nine government departments and that civil and defence offsets were united until 1975, then split until 1982, and are since December 1984 separated once again. It is difficult to speculate on confidence in the program and consistency in its approach when it receives the nonchalant treatment it continues to attract from the government of the day.

The Council moves next to drawing links between these two policies and innovation in industry, the focus of the Report but comprising only eight of the Report's sixty-three pages. Rather than accepting an unambiguous causality between procurement and offsets policies and industrial innovation, ASTEC might have devoted more consideration to the thesis that government sponsored demand is the necessary catalyst for the innovation process. The Report quotes a Brookings survey of the Australian economy that demonstrates a tendency toward greater significance of technology-intensive exports over the past decade (para. 2.21). That survey is said to attribute this mild success to competitive firms which require relatively lower levels of effective protection, proximity to Pacific nations conferring locational advantage, the structure of the economy with its many multinational firms and an entrepreneurial, literate and skilled workforce (para. 2.22).

It does seem more appropriate to explore instruments which are specifically targetted at improving international competitiveness as a first-best policy, rather than devising lesser-best means of promoting innovation that are far from transparent, are of doubtful economic impact, and which arouse anxieties in international trade forums. Research on the impact of procurement and offsets policies in industrial innovation is assisted but not exceedingly advanced by this ASTEC Report.

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REFERENCES

1. *Report of the Committee of Review on Offsets*, AGPS, Canberra, 1985.