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Engaged Egalitarianism: Why the Australian Recovery Must Prioritise Openness*

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Australian living standards, relative to the rest of the world, have been highest in eras of economic openness. Openness can also increase equality. Tariffs tend to be regressive, so poor households benefit most from trade liberalisation. In the case of immigration, skilled permanent migrants tend to earn considerably more than the Australian-born population, so any wage pressures are felt at the upper end of the distribution. Foreign investment can also have an equalising effect, by raising wages and lowering the rate of return on domestic capital. An approach of engaged egalitarianism – ensuring that the gains from globalisation are broadly shared – will benefit the most disadvantaged Australians.

Keywords: globalisation, inequality, imports, immigration, foreign investment.

1. Introduction: Stan and Bert Kelly

Whenever I take one of my sons to an outdoors shop, I like to point out the Clif Bars. 'Do you remember how they got their name?', I'll ask them. Wearily – because we have done this routine a dozen times – they'll roll their eyes. 'Yes, dad', he'll reply. 'Gary Erickson had the idea for a great product and named it after his dad'. 'That's right, son!', I'll reply. 'And don't you think there's a lesson for all of us in that?'

Like Gary Erickson, Bert Kelly honoured his father in creating this biennial lecture: truly the act of a 'modest member'. Stan Kelly was a campaigner for free trade in an era when it was deeply unpopular. When Australian industry was settling down for a long snooze behind high tariff walls, he was arguing for the benefits of trade liberalisation. In 1929, Stan Kelly joined the Tariff Board. The next

The Stan Kelly Memorial Lecture was established by the "modest member" Bert Kelly, in honour of his father, Stan.

William Stanley Kelly was a member of the Commonwealth Tariff Board from 1929 to 1939, an advisor to the Commonwealth Prices Commissioner from 1942 to 1948, chaired the Joint Industry Advisory Authority from 1951 to 1953 and was a member of the Consultative Committee on Import Policy from 1952 to 1960. Because of his rural interests, he was long interested in reducing tariffs which he saw as an indirect tax on rural producers. He was a lifelong champion of free trade. The Lecture is held every two years, and is one of the Economic Society of Australia's most prestigious events.

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*My thanks to attendees for their incisive questions and William Mackey for supplying data on the income distribution of skilled permanent visa holders that separates primary and secondary applicants. This talk expands on prior writings, including Leigh (2017, 2020).

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year, President Hoover signed the Smoot-Hawley Act into law, raising tariffs on over 20,000 goods. This was not a propitious time to be a free trader.

To be a Victorian free trader was tougher still. At the time of Federation, the colony of New South Wales was the only strong voice for free trade. Premier George Reid famously said that for New South Wales to join the federation was akin to a reformed alcoholic setting up house with five drunkards, leaving the question of beverages to be decided later by majority vote. Yet over the coming decades, Victoria did produce the occasional free trader. Stan Kelly was one. Bert Kelly was another.

Bert was a proud Liberal Party representative. I'm a Labor true believer. I've never shared Bert Kelly's electoral politics, but have always admired his ability to argue for sound economic policy with a well-chosen anecdote and a witty turn of phrase. The book of his modest member columns – *Economics Made Easy* – sits next to my desk in my Parliament House office (Kelly, 1982). It is fun to thumb through. In one 1979 column, Bert Kelly says that almost all economists are unpopular, and if they aren't, that is because they are 'not good economists or they are deceiving people'. Bracing words for any economist who wishes to win re-election.

It is an honour to follow in the footsteps of those who have given this lecture before me, including Anne Krueger, Ross Garnaut, Leslie Melville, John Stone and Bob Hawke. My thanks to the remarkably pansophic Alex Millmow and the Victorian branch of the Economic Society of Australia for inviting me.

2. Openness and Average Living Standards

Even prior to COVID, there were signs that globalisation was in trouble. Growth in world trade volumes, which had outstripped world output for decades, began to slow (Leigh, 2017). The election of populists in many countries threatened international institutions. Britain withdrew from the European Union, and American intransigence damaged the World Trade Organisation's ability to resolve trade disputes.

The COVID-19 pandemic accentuated that slide, just as the 1918–1920 influenza pandemic helped to derail globalisation a century earlier (see eg Siklos, 2021). Pandemics increase our fear of foreigners and lend power to the isolationists. COVID-19 empowered those who believe in shutting out the world and made life tougher for those who believe in the benefits of engaged multilateralism and diverse multiculturalism. COVID-19 empowered racists, xenophobes, protectionists, chauvinists and jingoists.

But to adapt Monty Python, what has economic openness ever done for us anyway? One way to answer this question is to look at whether there is any relationship between Australian living standards and economic openness. As a measure of relative living standards, I create a new metric: the share of the world's population who live in countries with higher average living standards than Australia, based on population and GDP data from the Maddison Project Database (Bolt and Luiten van Zanden, 2020).

This effectively looks at our performance in the living standards Olympics, weighting countries by their population size. To be beaten by Luxembourg matters less than if we are poorer, on average, than the United States. Although this measure has the disadvantage that it does not take account of the distribution of incomes within countries, it has the significant advantage that we can estimate it over nearly two centuries. When plotting it, I reverse the scale, to reflect the fact that better economic performance means being beaten by a smaller share of the world.

As a measure of openness, I use the sum of imports and exports divided by twice the national output. Both incoming and outgoing trade flows matter for openness but simply summing them together and dividing them by GDP risks producing a figure that exceeds 100 per cent (since GDP does not include imports). Dividing by twice GDP averts this problem. These data are drawn from Butlin *et al.* (2015) and Department of Foreign Affairs and Trade (2020).

Figure 1 shows these two metrics. During the 1850s and 1860s, Australian living standards were so high than only 2–5 per cent of the world's population dwelt in more affluent countries. From 1875 to 1891 (with the sole exception of 1882), Australia had the highest per-capita incomes in the world. By the early 1900s, Australia's relative standing had begun to fall, and in the 1930s, almost 10 per cent

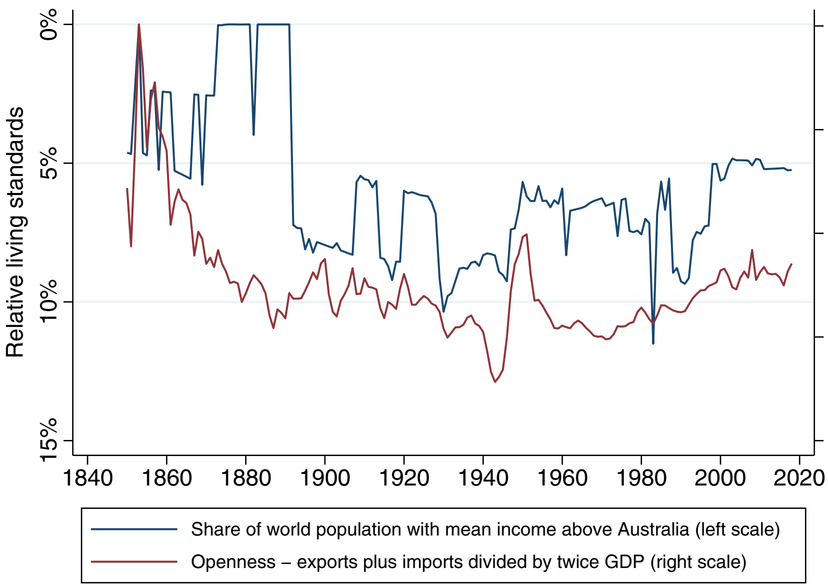

Figure 1. *Relative Living Standards and Openness. [Colour figure can be viewed at wileyonlinelibrary.com]*

of the world's population lived in countries richer than Australia. During the post-war decades, we climbed up the ranking a bit, with around 7 per cent of the world's population outperforming us. Then from the early 1990s we rose further still. Since the late 1990s, Australia has been in the top 5 per cent of living standards globally.

What about openness? During the mid-1800s, our openness share was around one-third, though this figure fell to about 15 per cent by the 1880s. Openness fell in the 1930s and during World War II, rose immediately after the war ended and then dropped again during the 1950s and 1960s. It steadily increased through the 1980s and 1990s and has remained at around 16 per cent during the 2000s.

The two series are clearly not perfectly correlated. For example, when Australia had the highest average living standards in the world, its level of economic openness was declining (albeit off a high base). Yet the two series do move together in the period after the second World War, and during the 1980s and 1990s. Indeed, this association is statistically significant. The simple pairwise correlation between the living standards measure and the openness measure is significant at the 1 per cent level (although this does not account for serial correlation). On its face, this implies that at times when Australia has been more open to the world, we have enjoyed higher living standards.

Yet averages only take us so far. When Elon Musk walks into a bar, the average wealth per person is over a billion dollars. But that does not mean that every drinker is a billionaire. Since at least the formulation of the Stolper–Samuelson theorem, economists have recognised that economic openness can benefit some while hurting others.

It is therefore helpful to look at the specific impacts of imports, immigration and foreign investment on Australian living standards.

3. Imports and Inequality

A standard result from the distributional analysis of consumption taxes is that they operate in a regressive manner. Because high-income households have higher savings rates than low-income households, expenditure taxes impose a larger burden on the poor. To take a simple example, suppose that an affluent household has a saving rate of 20 per cent, while a disadvantaged household

Table 1. *Expenditure on Selected Items as a Share of Gross Income, by Income Quintile*

	Lowest (%)	Second (%)	Third (%)	Fourth (%)	Highest (%)
Food and beverages	25.82	18.54	15.54	12.74	8.54
Clothing and footwear	3.23	2.56	2.35	2.24	1.61
Household furnishings and equipment	4.94	3.59	2.97	2.52	2.33
Motor vehicles	2.82	2.31	2.67	2.60	2.34
Books and other printed material	0.67	0.46	0.42	0.29	0.18

Source: Author's calculations, based on the 2016–2017 Household Expenditure Survey.

does not save at all. A broad-based consumption tax of 10 per cent would equate to a 10 per cent tax on the total income of the poor household but only 8 per cent on the total income of the rich household.

Because tariffs are consumption taxes on imports, tariffs on most products are regressive (in the sense that they constitute a higher share of income for low-income households than for high-income households). Table 1 shows expenditure as a share of gross income across household income quintiles, as estimated from the 2016–2017 Household Expenditure Survey (the most recent available), for a number of expenditure categories that are subject to tariffs.

Food shows an especially steep gradient, with the lowest-income households spending 26 per cent of income on food and beverages, compared with just 9 per cent for the highest-income households. For the categories of clothing and footwear, and household furnishings and equipment, expenditure takes up twice the share of a poor household's income as it does for a rich household's income. In the case of motor vehicles, the pattern is less pronounced, but vehicle purchase is still a larger share of income for low-income households than it is for high-income households. Books and other printed materials comprise the smallest budget share in the table, but the gradient is as steep as for food and beverages, with the budget share on books being three times as large for poor households as for rich households.

Precise tariff levels are difficult to calculate for these various expenditure categories. Tariffs vary by country, with free-trade agreements often reducing the basic tariff levels. Product categories of tariffs do not correspond directly to categories of household expenditure, sometimes because products are imported as raw materials and then assembled into finished products. Assumptions must also be made about the degree to which retailers mark up tariffs that are applied at the importation stage.

However, these complications are unlikely to affect the distributional impact of tariffs. For example, a clothing tariff that raised retail prices by 5 per cent would equate to a 0.16 per cent tax on the incomes of the poorest households, but a 0.08 per cent tax on the incomes of the richest households. Similarly, a motor vehicle tariff that raised retail prices by 5 per cent would equate to a 0.14 per cent tax on the incomes of the poorest households, but a 0.12 per cent tax on the incomes of the richest households.

This result also extends to restrictions on the parallel importation of books, which are rules that prevent Australian booksellers from purchasing cheaper editions of books from world markets. The Productivity Commission (2009, 2016) finds that these restrictions increase book prices by 10–35 per cent. The results in Table 1 indicate that parallel import restrictions impose three times as large a burden (as a share of household budgets) on the poorest households as on the richest households. The basic point is simple: virtually all tariffs and trade restrictions are regressive.

This straightforward result suggests that past reductions in tariffs have had a progressive impact. According to a study by the Centre for International Economics (2017), trade liberalisation between 1986 and 2016 increased real incomes by $8448 for the typical household. In proportionate terms, this is likely to have a greater impact on poor households than on rich households. Appropriately, trade liberalisation during the 1980s was accompanied by structural adjustment plans for workers in the textile, clothing and footwear sectors (Leigh, 2002). This recognised that despite the aggregate community benefit of lower prices, there was also an employment cost in those industries.

In some cases, the price impacts have been remarkable. Attending school in the 1970s and 1980s, I recall school shoes being a significant impost on my middle-class parents. That need not be true today. In Leigh (2017), I looked back through old newspapers to gauge the impact of trade liberalisation on Australian prices. In 1987, Kmart sold children's shoes for $10 and men's work boots for $28. Thirty years later, in 2017, Kmart sold children's shoes for $9 and men's work boots for $34. In other words, Kmart could have kept the same prices on their shoe shelves for thirty years, from the age of Dirty Dancing to the era of Ed Sheeran. The shelf tags would be scuffed and yellowed, but the prices would have remained accurate to within a few dollars, despite a tripling in nominal wages over that interval.

Lower tariffs did not just mean cheaper products; it meant more choices. As tariffs fell, it became viable for retailers to import a vast range of products that simply were not economic to sell in the high-tariff era. Over the past generation, the number of different car models sold in Australia has tripled. Our supermarkets stock more product lines than ever before. If you have a quirky hobby, play an unusual sport, or enjoy a rare cuisine, then you are likely to have benefited from trade liberalisation. Indeed, one study suggests that the consumer benefit of a wider range of goods might be larger than the consumer benefit of cheaper prices (Broda and Weinstein, 2006).

The foundation of trade is the principle of comparative advantage. If you pay someone else to cut your hair and fix your car, then you already enjoy the benefits of comparative advantage locally. International trade just represents the same idea on a global scale. My colleague Madeleine King has pointed out that if every nation had to supply all its own medical equipment, 'healthcare costs would soar' (King, 2020). Try treating your ailments only with medications that were invented and produced in Australia, and you'll quickly see how the global flow of innovation and products has made us healthier.

Economist James Ingram (1970) once pointed out that we can think of trade as akin to a magical machine that turns our exports into imports. We fill ships with iron ore, wheat and gold. They return laden with furniture, trucks and smartphones. The magical 'trade machine' produces these things more cheaply than would be possible than if we had to build them domestically. That's comparative advantage in action.

Yet over recent years, the number of harmful trade measures has risen sharply. Global Trade Alert, an initiative of the London-based Centre for Economic Policy Research, tracks the number of harmful trade restrictions imposed annually. From 2009 to 2021, this figure rose by one-quarter, from 2098 to 2684. Across this period, Australia was the victim of 1.1 per cent of harmful trade restrictions, and perpetrator of 1.4 per cent of harmful trade restrictions. Global Trade Alert estimates that the share of Australian exports at risk from harmful trade measures has grown from 28 per cent in 2009 to 73 per cent in 2021 (Evenett and Fritz, 2021, 80).

What holds true for trade in general also holds true for trade with China. As the Australian National University's Shiro Armstrong (2020) notes, 'free trade that excludes China is not free trade', since more supply chains run through China than any other nation. Because of this, China has a huge stake in maintaining a rules-based international trading order, and Australia has a strong interest in encouraging the Chinese leadership to maintain the system that has massively benefited their nation since China joined the World Trade Organisation in 2001.

Rather than lambasting 'negative globalism', engaged egalitarianism demands that Australia plays a more active role in campaigning globally for trade liberalisation. Within APEC, we could press for agreements that countries will not impose additional trade restrictions on food and essential medical supplies. In the World Trade Organisation, Australia ought to be encouraging a comprehensive, long-term solution to the breakdown of the dispute resolution process (a particular disappointment is the fact that the Biden Administration's approach to the World Trade Organisation does not differ markedly from that of the Trump Administration). Regionally, Australia should encourage the conclusion of the 15-member Regional Comprehensive Economic Partnership, which covers the 10 ASEAN states, plus Australia, China, Japan, New Zealand and South Korea.

Naturally, trade agreements can also boost Australian exports, on which I have said very little. This is not because exports are unimportant, but because they tend to dominate the thinking of trade policy-makers, and because their impact on living standards is so clear cut. Exports expand the pool of customers to whom businesses can sell their goods and services. This allows firms to expand and create more jobs. Across the economy, 14 per cent of the workforce are employed in export-related activities (Centre for International Economics, 2017, 9). If its production technology exhibits increasing returns to scale, exports can also increase productivity and wages. Empirical evidence supports this: exporters have labour productivity growth that is 2 per cent higher, and pay wages that are nearly 3 per cent higher (Tuhin and Swanepoel, 2017). Because the evidence on the positive effects of exporting is so strong, I will not devote more time to analysing its effects and will turn now to the issue of immigration and inequality.

4. Immigration and Inequality

When it comes to migrants, it is too easy to forget that those who come to Australia bring not just a mouth to feed, but muscles to build and a mind to inspire. Immigrants are overrepresented among start-up entrepreneurs and leading researchers. When I worked in a highly productive research department at the Australian National University, most of my economist colleagues were foreign born, and some were on temporary visas. With one-quarter of Australians born overseas, immigration has been a major driver of productivity growth. One-third of Australia's Nobel laureates – including Brian Schmidt, J.M. Coetzee, Patrick White and Bernard Katz – were immigrants.

The greatest beneficiaries of migration are the migrants themselves. Using visa lottery programmes as a randomised evaluation, a study of Indians who migrated to the United States found that they increased their earnings sixfold (Clemens, 2010). Facilitating orderly migration is one of the best ways of reducing global poverty levels, particularly if it is accompanied by measures to reduce the costs of sending remittances back. Globally, remittances exceed the total value of all foreign aid. Remittances account for 41 per cent of GDP in Tonga, 29 per cent in Nepal, and 18 per cent in Samoa. For these nations, migrants matter.

The impact of immigration on wages has been hotly debated by economists. A 2016 literature review conducted by the OECD identified twenty-eight studies on immigration and wages (OECD, 2016). Of these, thirteen reported no effect, seven a small positive effect, and eight a small negative effect. The review identified a similar pattern with respect to the impact of immigration on employment, with most of the research failing to back up the claim that 'migrants rob jobs'. The leading Australian study (Breunig *et al.*, 2017) reached the same conclusion. To the extent that economists have found evidence of local workers being hurt by migration, it seems to occur when the existing workers have similar skills to the new arrivals and when the influx is very large.

To the extent that migrants affect wages and employment, it is crucial to ask 'whose wages?'. For example, a country dominated by low-skill immigration might experience a large influx of gardening hands. If the inflow is large enough, they might decrease wages among native-born gardening hands. In principle, this could reduce the welfare of low-wage gardening hands and benefit those households that are rich enough to afford a gardener. Anecdotally, it appears much more common for affluent households in San Diego to pay someone else to mow their lawns than it does for households in a similar position in the income distribution in Sydney.

Conversely, a country that facilitates migration by medical doctors might find that it reduces the rate of wage growth among native-born doctors. This in turn may flow through to the prices and availability of medical services for those who use them most. In Australia's case, 56 per cent of GPs and 47 per cent of specialists are overseas-born (ABS, 2013). Since low-income households make more GP visits and are more likely to have a chronic illness (Elkins and Schurer, 2017), the beneficiaries of these immigration settings are disproportionately found in lower-income households.

What do we know about the earnings of Australian migrants? In Figure 2, I use data from the 2016 Census (the most recent Census from which data are available) to calculate the personal income distribution of skilled permanent migrants. I focus on primary applicants, since secondary applicants may be granted a visa on the basis of their spouse's labour market potential, rather than their own.

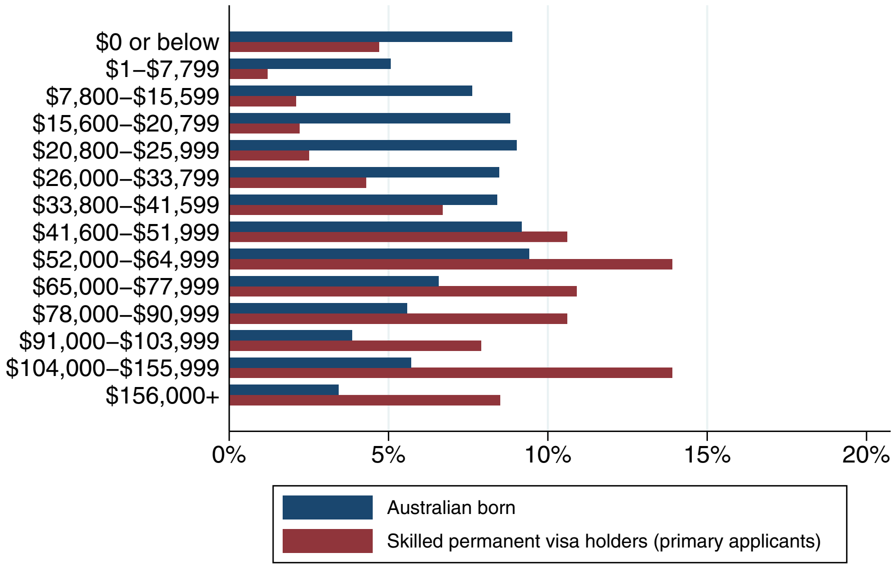

Figure 2. *Personal Income Distribution of Skilled Permanent Migrants. [Colour figure can be viewed at wileyonlinelibrary.com]*

This distribution is compared with the distribution of personal income among the Australian-born population. The chart shows that skilled permanent migrants tend to earn considerably more than the Australian-born population. Skilled permanent migrants are half as likely to earn zero or negative incomes, and half as likely to earn annual incomes between $1 and $41,599. However, skilled permanent migrants are more likely to earn incomes above $41,600. The gap is particularly noteworthy in the higher categories, with skilled permanent migrants being twice as likely to earn over $104,000.

Although there is scope to refine the operation of Australia's migration programme (see eg Coates *et al*., 2021, 2022), this result suggests that the permanent skilled migration programme is unlikely to increase income inequality. To the extent that immigrants through this programme have an impact on the wages of Australian-born workers (and we know from the literature that such effects are likely to be small), this is likely to have an equalising effect on the income distribution.

Naturally, this result may differ across migration categories. A similar analysis of the income distribution of temporary visa holders, or permanent visa holders who have come through the family or humanitarian intakes, is likely to show an income distribution that is closer to the Australian-born population, or perhaps even lower. However, those programmes are not mainly focused on economic outcomes. In the case of programmes that are aimed to unite families or provide safety to asylum seekers, it is not reasonable to expect migrants' incomes to exceed those in the general population.

As a share of our population, few countries have successfully welcomed as many migrants as Australia. This makes us ideally suited to help lead a global conversation on managing migrant inflows. As Columbia University's Jeffrey Sachs (2016) points out, 'There is no international regime that establishes standards and principles for national migration policies, other than in the case of refugees'. This should be a priority for engaged egalitarians.

5. Investment and Inequality

In recent years, one dollar in nine of domestic investment in Australia has come from overseas (Leigh, 2017). Australia's reliance on overseas capital dates to the earliest days of European settlement. Throughout Australia's history, investment from Britain, the United States, Japan and China has helped fuel economic growth. Foreign investors do not just bring cash, they also contribute know how to industries such as pharmaceuticals. Foreign investment can also provide competitive pressure. For example, Aldi's entry into the supermarket industry caused Coles and Woolworths to lower their prices (Productivity Commission, 2020).

Often, the choice is not foreign or local, it is foreign or nothing. When Japanese company Toyota and American firm General Motors ceased building cars in Australia in 2017, no local investors stepped in. Instead, the factories shuttered and thousands of workers lost their jobs. When the owners of Cubbie Station went into voluntary administration in 2009, no local buyers volunteered to purchase the 93,000 hectare cotton property. Had investors from Japan and China not bought the property in 2013, it might not have remained a viable operation. As the late NSW Premier Neville Wran once quipped about foreign investment in agricultural land: 'they can't take it with them'.

Investing in Australia provides a welcome source of diversification for overseas pension funds. To mitigate risk for their members, Canadian retirement funds such as the Ontario Teachers' Pension Plan have invested in Australian piggeries, dairy farms and feedlots. At the same time, Australia's superannuation funds are increasingly investing overseas, helping ensure that retirees do not have all their nest eggs in a single basket. The idea here is akin to the reason why workers should not have all their retirement savings in the company they work for: if the firm goes bust, you lose your job and your investments. But if you have investments in other firms, you diversify your risk. Likewise, investing some of your superannuation overseas helps buffer the risk of a significant slump in the Australian economy.

Foreign investment can also help reduce trade conflict, by giving foreigners a stake in the success of the Australian economy. Triggs (2020) points to the example of Indonesia, which for years restricted beef exports from Australia. But as Indonesian firms invested in the Australian cattle industry, Indonesia's incentive to curtail our beef exports has been substantially reduced.

A common myth is that Australia makes it especially easy for foreign investors. In fact, Australia's foreign investment screening is already more stringent than in most advanced nations. The OECD's foreign direct investment regulatory restrictiveness index measures openness on a scale of 0 (completely open) to 1 (completely closed). Its latest analysis, based on 2020 data for thirty OECD member nations, ranked Australia the 5th-most restrictive nation, with a score of 0.149, significantly more restrictive than the OECD average of 0.07 (Figure 3).

The many advanced countries that are more welcoming to foreign investment than Australia include Britain, Japan, Germany and the United States. Looking in the opposite direction, one of the few nations that has tougher foreign investment screening rules than Australia is New Zealand. According to a recent Productivity Commission study, if Australia tightened our foreign investment rules to match those across the Tasman, net investment would decline by 1.3 per cent, Gross Domestic Product would fall by 0.26 per cent, and Gross National Income would fall by 0.17 per cent (Productivity Commission, 2020, 103).

In recent decades, 'capital deepening' has been a major source of productivity gains. Simply put, investing in better industrial machines, newer computers and more efficient offices increases the amount that each worker can produce each hour. In the long-run, productivity gains are the main source of wage growth. So if we want fatter pay packets, foreign investment can help. Scarce factors earn higher returns, so banning foreign investment would raise the rate of return for existing capital owners. Since capital is highly concentrated, this would deliver windfall gains to the most affluent.

Specifically, the Productivity Commission analysis estimates that tightening Australian foreign investment rules to match New Zealand's would lead to a 0.25 per cent increase in the rate of return on capital, and a 0.24 per cent fall in wages. For a worker on median earnings ($1200 per week), this would equate to a $150 annual loss. Part of this wage loss is driven by job loss, with some sectors likely to shed jobs if foreign capital dries up. Although foreign investment tends to be concentrated in sectors with above-average earnings (such as mining, manufacturing and financial services), the combination of a wage reduction and an increase in the return on domestic capital would probably

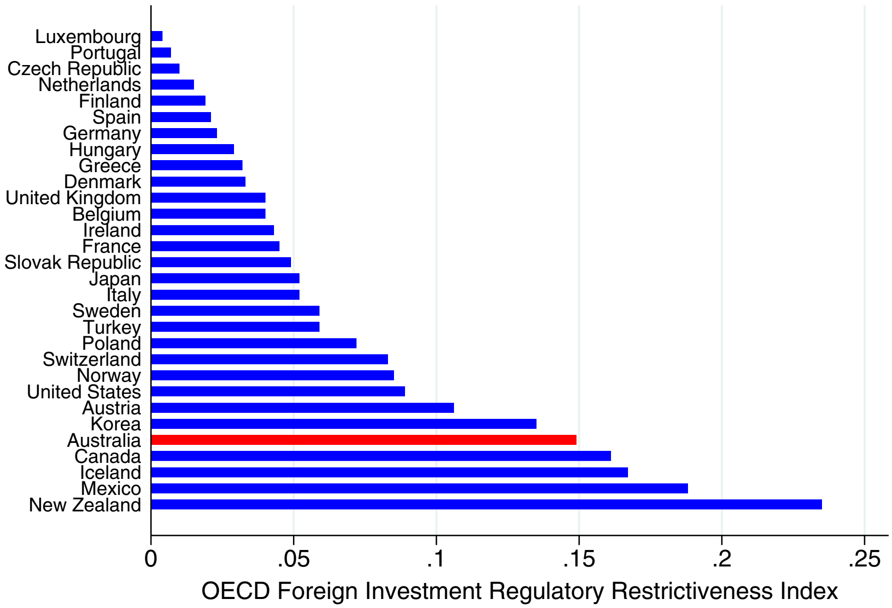

Figure 3. *Foreign Investment Restrictiveness. [Colour figure can be viewed at wileyonlinelibrary.com]*

increase overall income inequality. At the very least, we know from the Gross Domestic Product and Gross National Income results that such a move would reduce aggregate economic well-being.

Engaged egalitarianism recognises that foreign investment can boost equality. One way to think about foreign investment is that it raises the ratio of capital to labour in an economy. If labour markets work as they should, then more capital per worker ought to lead to higher wages. Just as workers earn less in capital-scarce Uganda than capital-rich Switzerland, so too Australian workers should benefit from an increase in the national capital stock. That is true whether the investor lives in Townsville, Toronto or Tokyo.

6. Conclusion

Over the past two centuries, Australia's economic performance on the global stage has been strongest when the nation is most engaged with the world. In the 1880s, when Australia's income per person placed us number one in the world, the trade share was high (Figure 1). That was also a period in which foreign investment funded almost half of all domestic investment (Kirchner, 2020). And many Australians were new immigrants. Indeed, of all the migrants who left Europe between 1851 and 1915, 7 per cent went to Australia, making us the third most popular destination – a remarkable statistic for a country so small and so distant (McLean, 2013, 106). The earnings gap in that era was vast. Nineteenth century labourers in Sydney earned twice as much as their counterparts in San Francisco and Chicago.

By contrast, Australia's retreat into isolationism, behind the walls of White Australia and tariffs, saw the country slip backwards in relative terms from other countries' living standards and productivity. When the economy re-globalised in the 1980s and 1990s, we began climbing the ladder – closing the gap in living standards between us and more internationally engaged nations.

But Australia still has a productivity problem, and our lack of global engagement is part of the challenge. Kirchner (2020) reports that Australia's trade share is substantially lower than typical high-income country. On the 2021 KOF Globalisation Index (Gygli *et al.*, 2019), Australia ranks 28th, nestled between Croatia and Malaysia. Australia could also benefit from increasing the diversity of our economy. On the Harvard Atlas of Economic Complexity, Australia ranks 86th, putting us just between Oman and Uzbekistan. We're not just too disengaged from the world; we also have too many economic eggs in too few baskets.

Autarky is not only bad for productivity, it can also worsen inequality. Tariffs on imports tend to be regressive, so increasing trade restrictions imposes a larger burden on poor households. Skilled permanent migration to Australia has seen an influx of high-wage earners, so even if migration reduces wages (for which the evidence is patchy), the impact of skilled migration may be to reduce earnings inequality. Modelling of foreign investment suggests that a more restrictive approach would reduce wages. The same is doubtless true of a reduction in exports, which would effectively amount to shrinking the market size for Australian firms.

In the spirit of Stan and Bert Kelly, I have outlined a few ideas about how Australia could step up our global approach, guided by the philosophy of engaged egalitarianism. On the trade front, we should work to reduce harmful trade measures and improve the World Trade Organisation's dispute settlement process. On immigration, we should work with other nations to develop a more unified approach to people flows. On foreign investment, we should avoid tightening screening. There are also other opportunities for leadership – including in the OECD, the G20 and even the G7 – which could provide a chance for Australia to pursue an engaged egalitarian agenda.

If Australia is to build back better after COVID, it is vital that we remember the many ways in which globalisation has shaped our nation for the better. With 0.3 per cent of the world's population, Australia stands to benefit from being connected to the world, through trade, migration and investment. If our nation rejects the benefits of openness – either through xenophobia or a broader failure to step up to regional leadership – then we may end up poorer and more unequal. Conversely, an engaged egalitarian approach reflects Australia's values and history, and offers a bright future for our nation and the globe.

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