

## Trade Policy

*John Hyde*

Recent changes in Liberal leadership have given renewed hope to Neanderthal wets. A letter from the Member for Lyons, Mr Max Burr, nominally sent to Mr Peacock but circulated to all Liberal Members and Senators, is an example of their activity. Mr Burr starts by expressing concern "at what appears to be the dogmatic adherence to the concept of deregulation by the Liberal Party" and goes on to urge "reimposition of a ceiling on first mortgage interest rates" and "quantitative restrictions on imports".

Fortunately, the Government, although it suffers similar wet elements on its own back bench, is likely to do neither. Indeed, it is progressing, albeit slowly, in the other direction.

Because of their long-term effects, trade barriers are a thoroughly unsatisfactory way to balance the foreign account. So much so, that the Government is lifting restrictions on the import of second-hand mining, construction and agricultural equipment. The regulations restricting these imports compelled some Australian industries to use more expensive or less suitable alternative aids to production. Naturally, the artificial cost made it more difficult for them to compete with foreign-made goods. In line with its charter to evaluate the whole economy, the IAC recommended that the restrictions be lifted. And human nature being as it is, it was perhaps also natural that the local manufacturers of similar equipment bombarded the Department of Industry, Technology and Commerce with self-serving literature opposing the deregulation.

In the case of this equipment, because the economic chain is short, it is relatively easy to see why import restrictions would not, in the long run, improve the imbalance of payments. And, since this trade barrier, like all trade barriers, caused these industries to operate less efficiently than they could have done, the regulations reduced living standards. We cannot be wealthier than our production.

Australian car dealers have also been importing used equipment---second-hand cars from Japan. With these the economic chain between the cheap imports and the production of other tradable goods and services is longer, but the same

general principle applies. Second-hand Japanese cars are not directly productive, but they do raise the living standards of the people who purchase them. Australians have been able to purchase safer or more attractive cars for their money, or, alternatively they have had some money left over after paying for the car to pay for, say, the mortgage.

Naturally, local manufacturers and their dealers have been screaming. One of their claims has been that, because the Japanese design rules differ slightly from our own, the Japanese cars are less safe than those made here. The objection raised, if not totally spurious, is based on the wrong question. Since even the wealthiest car buyers' resources are limited, the right question is: which car is safer for the same money?

The special pleaders cannot deny that these cars raise wage earners' living standards. Because wages are related to living costs, cheaper transport improves the competitive position of all other Australian industries. Most of the savings made from importing anything that is cheaper than the local manufacture---new cars or children's clothes for instance---eventually find their way, via the cost of living, to the cost of production.

Thus, although import restrictions may improve the current account in the short run, they only work if they reduce living standards in ways that do not also reduce productivity. If, on the other hand, people were to be fully compensated, with say higher wages, for the higher cost of buying Australian, then nothing would have been done to improve the current account.

Moreover, even in the short run, there is nothing especially efficacious about import barriers: the current account may be affected by any measure which changes domestic consumption relative to domestic production. Other ways to reduce domestic consumption include slowing down economic activity with high interest rates; reducing real minimum award wages and real government benefits; changing the tax and welfare rules so that people voluntarily consume less in order to save; and increasing the budget surplus---i.e. government saving. Of all the alternatives, trade barriers are the worst way to influence the current account, because they alone prevent the enduring structural adjustments which will eventually allow us to pay our way and increase our consumption at the same time.

The underlying problem is simply that Australians are consuming more than their production allows them to afford. Until we produce more, or consume less, there is no solution to the current account deficit. Mr Burr and others might ponder that deregulation, particularly of trade, is the proven way to produce more. Wet Liberals, Labor's Left and the Democrats to a woman would not get away with their pop-economic solutions to the real problem, if there were enough politicians on either side of the House who were prepared to

state plainly that, in the short run, living standards will fall.

Up to a point, Senator Walsh was correct when he said that "...the public does not realise the gravity of the [economic] situation". But whose fault is that? To appease the ACTU, which threatened economic mayhem, his party is telling the public that tax cuts and wage rises can be afforded. What is more, in spite of repeated assurances that everything is under control, most people are only too willing to believe that it is not---if they are told. It is not the public, but our leaders (with a few honourable exceptions such as Walsh and, I believe, Howard) who are failing to face up to the gravity of the situation.

At best, our politicians talk about everything else but belt tightening. At worst, they lend credibility to such fatuous nonsense as the assertion that because real earnings fell they should now, willy-nilly, rise. They are afraid to be the truthful messenger and they are afraid to be seen doing nothing. So they talk and talk and talk about mortgage subsidies, Pacific trade blocks and trade barriers---anything but the solution to the problem.

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