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Catchline: ON THE DRY SIDE

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The Uruguay Round: a Fools'
Dialogue?

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Australians are unlikely to eliminate tariffs on imported motor cars out of any deep-felt concern for manufacturers in Japan. Rather, it is their concern for Australian consumers and ultimately exporters, who are paying \$4,500 more for the average car than they need, that is getting Australian protection laws changed---however slowly. It is the same with protection laws in other countries.

The General Agreement on Tariffs and Trade (GATT) is credited with being substantially responsible for the post-war increase in world trade and the sharp rise in average world living standards. Australia was, however, one of several countries which, in spite of the GATT, maintained high trade barriers. Since the war our share of world trade fell from over 2% to about 1.3% and we declined from about the third wealthiest people in the world to about the twentieth---in line with consequences predicted by text books.

The GATT's *modus operandi* is to encourage nations to sign a code limiting barriers to the entry of other nations' goods. The code strengthens the hands of those governments which understand the benefits of trade when dealing with their own citizens. Nevertheless, too many classes of goods---agricultural produce, textiles and intellectual property, for instance---are outside the agreement and there are too many ways of getting protection on the side. The GATT is thus like a police force trying to stamp out prostitution. And just as the fear of AIDS has partly done the policeman's job, so the fear of falling living standards is, to some extent, doing GATT's.

The GATT, nevertheless, still has a policeman's role and one of explaining the transmission of economic AIDS. Australia has much at stake in the current round (the Uruguay Round) of GATT negotiations. We want, for instance, to get more of our agricultural produce admitted to Europe and we want the European Community to stop dumping their subsidised produce in markets we might supply. The rub is that European farmers really don't give a damn about Australian farmers, and neither do the people who buy subsidised European produce.

Periodically, representatives of GATT's member nations conduct a sort of Mad Hatter's tea party in one of the world's better hotels. Each delegate complains bitterly about the harm that other nations' trade barriers do to his nation's citizens. And he defends his own government's trade barriers, which harm its own citizens, on the ground that these do not hurt the citizens of other nations as much as five years ago. It is a scene that Lewis Carroll might well have devised.

Our own Trade Minister, Dr Blewett, writing in the trade magazine 'World Link' lists the protection given to agriculture in various nations. When compared with that of the European Community of 38%, Australian agricultural protection of 10% is low. In the spirit of the Mad Hatter, he writes only of the advantages to Europe of trade in intellectual property, services and industrial produce, should Europe agree to the *quid pro quo* of freer agricultural trade. He omits to mention the advantage to Europeans of access to our cheaper food.

He writes of the 'substantial sacrifices' that will be made by the Cairns Group (of agricultural nations). If the Uruguay Round is successful, these countries will subscribe to rules that protect intellectual property and allow the import of services such as banking, shipping and entertainment. Intellectual property can readily be stolen, and forgoing the ability to steal it might be seen by some as a sacrifice. But the Australian who need no longer buy an overpriced car makes no sacrifice. Dr Blewett also forgot to mention that Australian car manufacturers enjoy an effective rate of protection of 98%. He did not discuss the advantages of doing what Chile, Brazil and Mexico have done recently: namely, head unilaterally down the path of trade reform.

National honour was somewhat restored: Dr Blewett's silliness was more than matched by a Raymond MacSharry, European Community Agricultural and Rural Development Commissioner and farmer from County Sligo, Ireland. He thought the Community had been frightfully generous because it had reduced its agricultural protection by 10% in the arable sector and 15% for livestock. He did not mention the costs his policies had inflicted on European household budgets. Even Jack McEwen, the architect of Australian protection, could not have been more misguided.

What of unilateral free trade? Trade between individuals allows people to produce what they are good at and buy everything else. Not wishing to return to subsistence living standards, we all trade. It is the same with nations.

The principal of comparative advantage is most easily explained with an example. This is a variant of one employed in "The Economist": In the hypothetical nation of En-zed, it takes one man-hour to make a pound of cheese and two to make a pound of coffee. And in Pee-en-gee it takes six hours to make a pound of cheese and three to make a pound of coffee. En-zed is more productive in both commodities but its comparative advantage is in cheese. It will, therefore, pay En-zedians to produce cheese and buy coffee.

Pee-en-gee is less productive in both products but its comparative advantage is in coffee and its standard of living will more nearly approximate that of En-zed if it specialises in coffee and buys cheese.

Because En-zed is more efficient, its wages are higher. Lower wages allows Pee-en-gee the chance to produce coffee more cheaply. If its government had any sense, it would not, however, produce cheese because to do so will require it to further lower its real wages.

Unfortunately, governments are not always sensible. Dairy cattle graze in the tropics, five separate car companies manufacture in Australia, and textile factories are everywhere.

While policies that raise living standards are called 'sacrifices', we are unlikely to end such nonsense. Fortunately, however, not every GATT participant plays the Mad Hatter all the time. The Uruguay Round may yet succeed. And even if it does not, many countries, including Australia, are committed to lowering their trade barriers unilaterally.

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