

Tariffs: The Beam in Our Eye

John Hyde

At the General Agreement on Tariffs and Trade (GATT) meeting in Canada, Australia's Minister for Trade Negotiations, Mr Michael Duffy, and the European Community's Mr Willy de Clercq fell to trading insults. When Mr de Clercq berated Australia for barriers raised against trade in industrial products, Mr Duffy attacked the Common Agricultural Policy (CAP) accusing Mr de Clercq of 'unbridled hypocrisy'. Both Ministers are guilty of unbridled silliness. The principal costs of trade barriers are born by the people of the country which imposes them---they are thus a form of national masochism.

The spat was brought about by the failure, yet again, to liberate agricultural trade. This probably means that trade in agricultural produce will continue to be frustrated by Europe's CAP, US and Japanese beef quotas and the many other laws by which nations prevent their own citizens enjoying the best and cheapest agricultural produce---and hence the highest possible living standards.

Although the potential importers of Australian produce lose most, impediments to agricultural trade also affect us. Reduced demand for Australian agricultural exports reduces Australian food prices---not a bad thing in itself---yet at the same time it denies us the foreign currency we need to pay for imports. (Lately we have been importing on tick, but that can't go on.) By importing more of things such as motor cars and clothing, which are currently more expensive here than in other countries, we could improve our living standards and our international competitiveness. It is ironic, but not coincidental, that these are the very items which our government will not allow us to import freely.

To dispose in passing of a common furfie: Even in the short run, barriers which restrict only some imports won't reduce the current account deficit. A child with twenty cents who finds he cannot buy jubes is likely to buy gobstoppers. It is the same with nations: denied the import we want most, we buy something we want less.

Tweedle-Duffy is reported to be furious that Tweedle-Clercq should criticise Australia which is, after all, lowering protection and moving to eliminate quotas in favour

of tariffs. Australia is reducing protection----slowly----but not to please the European Community. We are reducing our unusually high levels of industrial protection because we are getting sick of seeing our living standards slip behind those of people who live in better--managed (that is, less--managed) economies.

If it were not for the CAP, Mr de Clercq might laugh at our expense. Or he might, in charity, enjoin us to reduce our trade barriers as quickly as, say, New Zealand is doing. As it is, he can point out that, being a smaller market than the European Community with less opportunity for diversified internal trade, we pay a higher price than the EC for our stupidity. Nevertheless, the European's price is too high to be afforded, even for them, and in due course Europe will abandon the CAP. This sensible change will not, however, be made to please Australians.

Australian farmers envy the high prices received by their European, North American and Japanese counterparts and they would like bigger slices of the US and other markets. They would, however, gain less than they imagine. Take the US beef market as an example. Australian farmers tend to forget that the reason US beef prices are high is because cheap foreign beef is excluded. While access to American demand would increase Australian beef prices, Australian supply would also reduce American beef prices. What is more, American Congressmen, who might be very impressed by American consumers demanding cheaper beef, are unlikely to be impressed by grandstanding Australian politicians.

Similarly, if Japanese cars were allowed freely into the Australian market, the biggest winners would not be Japanese manufacturers but Australian drivers----and our politicians would not want to be seen to have been influenced by the Japanese.

CAP stupidity has another dimension. Artificially high prices have produced butter mountains, wine lakes, etc. The sale of these mountains and lakes is subsidised in world markets thus driving down worldwide prices. The CAP thus transfers wealth from European taxpayers and Australian farmers to consumers in the purchasing countries. In the case of poor nations this might be a reasonable act of charity, but in the case of Warsaw Pact countries, where the transfer helps to finance a potentially hostile army, it is farcical.

If tariffs and import quotas reduce living standards, why do governments persist with them? Governments are not stupid; they use industry protection to win the votes of those people who will actually deliver votes.

Industry policy allows protected producers to charge higher prices and protected workers to indulge in work practices that are uncommon in other countries----some Australian work practices are unheard of elsewhere. Trade barriers bring about big wealth transfers within the country that institutes them. They are a form of privilege. The reason

they are so common is that producers who are concentrated and organised into associations and unions can deliver a block of votes, whereas consumers cannot.

The democratic aberration is made much worse by the sort of nonsense Mr Duffy and Mr de Clercq threw at each other and which underlies the whole GATT procedure. If Australia were to lower its trade barriers unilaterally, Australian living standards would rise irrespective of what other countries did. Mr Duffy should explain that truth to Australians and let the Europeans, who really don't care about Australian living standards, worry about Mr de Clercq.

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