

WORLD TRADE

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When Australian Prime Ministers have affected statesmanship on the world stage---as they have in Cairo, Djakarta, Salisbury and Tokyo---they temporarily swelled their reputations in Balmain and Toorak. But, as Australia is that contradiction in terms 'a small power', they did not make the world a much better place.

Therefore it seems unlikely that the Australian Industries Assistance Commission (IAC) could have the slightest effect on the likelihood of another great depression. Yet it might, just. But only if it gets away from the industry-by-industry approach of the Department of Industry, Technology and Commerce and can assess protection for its effects on the whole economy. The IAC's transfer to Treasury was therefore necessary.

The world economy, which is overloaded with doubtful international debt, and American politics, which is hell bent on blocking imports, are too like 1929. In 1930 the United States Congress responded to Japanese imports with the infamous Smoot-Hawley tariff. More than any other single event, this, and the retaliation it provoked, turned a common-or-garden recession into 'the great depression'. It destroyed Japanese-American trade and left Latin American debtor nations, such as Peru, with no way to pay their debts to American banks. It contributed to Pearl Harbour later.

Ill-informed Congressmen, who could not see beyond home-town industries, reduced American living standards and disrupted export industries such as banking. They also forged a link in the chain that dragged the world into the great depression. If they are not better informed they will do it again.

Australia did not reduce manufacturing tariffs in the fifties and sixties. It now has one of the most highly protected manufacturing sectors in the developed world. Although a developed nation, our trade (and protection) patterns and interests parallel those of many developing nations. (See 'Australian Protectionism', by Kym Anderson and Ross Garnaut, published by Allen and Unwin.)

Australia's was the best-informed voice at the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). We are a leader among the commodity-selling nations. Subject to credibility, when we are not whinging, this gives us a chance of influencing Washington, Brussels and Tokyo. Anti-protectionist leaders, such as Reagan, know what they should

do to save world trade; they don't how to convince their constituencies. That is where the IAC comes in.

International Trade Advisor John McDonnell presented this year's Stan Kelly Memorial Lecture. I have read more cheering papers. He argues that the United States is critical to international trade negotiations. At the Bretton Woods negotiations, after the World War II, US attitudes determined the outcome even though their negotiator, Henry Dexter White, was a reputed Soviet spy. At the 1964 Kennedy-Round negotiations US trade legislation provided the agenda and determined the outcome. The parameters for the Tokyo-Round were set by 1974 and 1979 US legislation.

The next round cannot ignore highly-protectionist US legislation. In April the US House of Representatives carried HR3. It would compel the President to erect protectionist barriers against countries with 'excessive' trade surpluses with the US. US Senate bill, S490, is different but it too is protectionist. The Houses must agree and the outcome is subject to Presidential veto but protectionist legislation is likely to be carried.

This legislation will set the Multi Trade Negotiations (MTN) agenda unless US congressmen come to appreciate the consequences for their whole economy of protecting bits of it. Never mind what they say; they will give as much thought to our farmers as our politicians gave to Malaysian textile workers. US Congressmen must be convinced that US protection will injure Americans.

Everything in an economy is connected to everything else. One industry's protection is always another's cost. What is more a protected industry's gain is always less than the cost to the rest of society. The costs are usually widely dispersed, but Analysis must identify these costs, if it is not to favour political constituents. Industry-by-industry analysis is inevitably special pleading of the sort that got the world into its present mess.

Mr McDonnell quoted a delegate to GATT who remarked: 'We do not need a change of rules. We need a change of heart.' Members of the GATT treaty, including Australia, are devoting their energies to finding legal and illegal ways around its rules. Faced with the possibility of a major depression the Venice Economic (if you please) Summit preferred to talk about AIDS. While ignorance is not a barrier to eloquence, serious knowledge apparently is.

International trade is governed by domestic politics. If nations are to (re)bind themselves even to just Article I of the GATT treaty, as the Kelly lecturer suggests, voters must first appreciate the cost of protection to them. Losers should have their losses from baulked exchange identified and quantified. Their loss is the same whether the baulk is the tariff, the railway monopoly or a strike. Protected domestic transport is as bad for international trade (and domestic trade) as a high tariff. All barriers and all consequences must be considered.

The IAC has less to do with technical expertise and more to do with transparency and fairness. It must be as independent of competing interests as a court of law.

The mistake Senator Button and DITC have made is to develop adjustment packages for separate industry constituencies on the basis of what is acceptable to the industry involved, on the basis of political realities.

The new trade round is unlikely to begin in earnest before 1990. Mr McDonnell paints a dismal picture of the pressures it will face and the likely outcome. The best hope of avoiding his dire prediction is for the major players, the US, European Community and Japan, to have available to them the sort of whole-economy assessment the IAC is capable of giving us. If the American International Trade Commission (ITC) were to become an IAC it would serve not only Americans' interests but the worlds'.

In the meantime, to prepare for the worst, the restructuring of the Australian economy should not be delayed pending a GATT outcome. Australia should not assume the GATT will work for it.

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