

"ON THE DRY SIDE" - XVII

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Australia Writ Small

The left is always urging us to learn from the example of of Sweden - or is it Austria these days? It seems a little odd of them to ignore another social laboratory rather closer to home.

Rank the 24 Western OECD nations for economic growth over the past 10 years and we see that while Australia has bumped along five or six places from the bottom, New Zealand has averaged the bottom position. Chronically poor economic growth has made the people of both nations less wealthy than others like the Japanese, who only a few years ago were much less well-to-do than ourselves.

Both economies are relatively dependent on industries associated with the natural advantages of soil, climate, scenery or minerals. Trends in the terms of trade have moved against both economies over the past 10 years as prices for exports have not kept pace with those of imports. Although permanent loss of our traditional comparative advantages would indeed be serious, that is not our principal difficulty - nor is it EEC trade barriers. Most of Australia's and New Zealand's problems should be laid, not at the feet of international markets but at the feet of our own politicians.

Although New Zealand has more to fear from lost competitive edge than Australia, both economies still have some very competitive industries, including many efficient low-cost manufactures which would support high standards of living; which is to say high wages and other earnings, if only that was all they had to support.

Australia has a Gross Domestic Product of A\$130 billion and New Zealand only A\$18 billion.

In spite of their small sizes and consequent dependence on trade, both nations have erected some very high import barriers indeed, mostly against manufactured goods. An effect of these trade barriers is to disadvantage the efficient, naturally-advantaged industries. The effective rate of protection of the Australian manufacturing sector is a high 24%. A similar measure has not been as precisely made in New Zealand, but is thought to be about 40%.

This makes life tough for exporters. There are several estimates of the burdens here, but they all point to a ball park figure that import barriers have a tax effect on the Australian export sector as high as one-quarter or more of exports valued at f.o.b. prices. The cost in New Zealand's case must be higher.

If discussions I had on a recent visit there are anything to go by, New Zealanders in both government and management are rather more aware of the problems than Australians; perhaps because they have been in more trouble for longer. They do say that the prospect of being hanged in a fortnight concentrates the mind wonderfully.

Minimum price arrangements and export incentives are seen by them as a second best (or as one New Zealand economist put it to me, tenth best) means of reversing the existing misallocation of that nation's resources. These are, of course, only partial in their off-setting effects, costly in administration and inefficient. They also provoke retaliatory countervailing duties in New Zealand's export markets including Australia.

Protection does not even stop at import licensing and tariffs.

As both our island nations suffer the tyranny of distance, a rational observer might expect them to seek the cheapest sea and air freights available. Not a bit of it. Both protect national shipping lines and crews from competition, so much so, that at the time that the Jackson Report was written, it was less expensive to send bulk cargo from Sydney to London than it was from Townsville to Sydney; and so great is the cost of crossing Cook Strait that it may well be cheaper to supply South Island from Sydney than from Auckland.

Qantas and Air New Zealand are protected from free competition. So far as I am aware the cost of high air fares to the New Zealand tourist industry has never been calculated, but must be considerable.

Both nations have more than adequate natural advantages blighted by government intervention. Both nations, although governed by nominally free enterprise political parties for most of their recent histories, have nonetheless suffered the antithesis of free enterprise: mercantilist socialism. Trade and transport are but two of the most serious examples.

Perhaps because their economy is smaller, New Zealanders have so far paid a higher price for their folly. We could still learn much by their example if only we would.

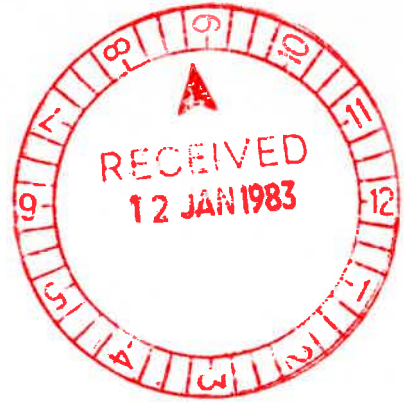
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Dear Mr Hyde

I have pleasure in acknowledging receipt of your article,
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Yours faithfully

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