O N T H E D R Y S I D E

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EXPORTERS PAY FOR TARIFFS

Most of us, at some stage during the continuing argument over the rightness or efficacy of sheltering some industries from the rigours of international competition at the expense of other industries, have heard it said that the burden of tariffs falls on exports. This has been repeated often since 1929 when the Brigden Committee reported that it was so. Samuelson's "Economics", a standard text book, says, "The Brigden Report was to exercise great influence over informed opinion in Australia (and to some extent elsewhere)". Time and again I've heard Bert Kelly repeat, "We all know that in the end the exporters have to pay." It is remarkable that after so much repetition that so much uninformed opinion can still be found among protected manufacturers, unions and politicians, even in the National Country Party who once claimed to represent exporters.

Professors Ken Clements (University of W.A.) and Larry Sjaastad (University of Chicago) have put some numbers on the taxes which exporters must pay to prop up uncompetitive import competing industries. Their paper is about to be published by the London based Trade Policy Research Centre, leaving opinion with even less excuse for being uninformed about the direction of the transfers, while informing it about the magnitude.

Clements and Sjaastad divide the consequences of protection into two components. One component, which might be termed the efficiency effect, the dead weight loss, or the amount by which a whole nation is poorer, they put to one side, concentrating only on the protection-effected transfers between the various groups in the economy. To the extent that exporters must also bear portion of the dead weight loss, the measure of the burden exporters carry is understated at $4.376 billion in 1977/78 dollars. To the extent that Australian exporters are subsidised, it is overstated, but as the export sector is primarily agriculture and mining, which receive little protection, "most of the $4.376 billion represents the cost of protection borne

The argument, like all good arguments, is quite simple. The purpose of a tariff or import quota is to enable Australian producers of import competing goods to raise prices above the duty free landed cost of imports. These higher prices are either paid by other industries directly, as when steel or textiles are protected, or indirectly through consumer prices and wages, as when clothing or footwear are protected. The cost is passed along from industry to industry until it reaches an industry which cannot pass it further. Industries which cannot pass the cost any further are in the main part those which sell in international markets. 78-2

The exporters' tariff-induced burden could be offset by paying them an export subsidy. Uniform tariffs and export subsidies together would have the same effect on prices as devaluation, raising prices all round and protecting no-one. However, the sole purpose of protection is not to raise all prices but to alter relative prices to reward some industries. Like medieval monarchs dispensing monopolies and franchises to reward and buy friends, modern governments distribute protection to marginal seats, to loyal contributors to party funds and to those who unappeased make trouble. As with the Kings, modern governments, far from displaying compassion or generosity, employ the wealth of some of their subjects for the benefit of favourites.

Brigden identified the disfavoured group. Clements and Sjaastad have quantified the tax it pays.

(They introduce the notion of <u>true</u> tariffs as being the extent that prices rise in the import competing industries over and above the extent that economy wide wages rise.) Since export prices are given by world markets, the extent that wages rise becomes the extent of the tax upon exporters. For all those along the way the benefit of high prices ~~are~~ is more or less offset by higher wages and other costs. <u>True</u> protection is thus likely to be much less than <u>nominal</u> protection and will be accompanied by an implicit export tax.

They introduce the notion of the <u>shift coefficient</u> as that fraction of a tariff or equivalent protection which is transformed into an implicit export tax. Using different methods, estimates for the coefficient of 70% and 80% are obtained. It was by applying the lower of these two figures to the IAC's estimate of the 1977/78 consumer tax equivalent of Australian trade barriers that an implicit export tax of $4.376 billion (1977/78 dollars) was estimated. This high figure is at least of the same general order as the total of all other taxes, from shire rates to company, income and sales tax, paid by the export sector.

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Supposing the weighted average tariff to be 30% and the shift coefficient to be only 0.6, then the true protection turns out to be only 10% and the implicit export tax 15%. In other words, the same result would be obtained for everybody - import competer, importer, exporter, consumer and government revenues - by a government which imposed a 10% tariff and a 15% export tax. How many of the people, who like to pretend that they think a 30% tariff is some sort of free lunch, or at least a free lunch for Australians paid for by cheap (that is the starving) labour in third world countries, would be prepared to advocate a 15% tax on imports ? (Our trade barriers do impose a cost on the world's poor, but that is part of the dead weight loss set aside from this study.)

Among other important matters, it is in the light of this "export tax" that protectionist Trade Ministers like Mr. Lionel Bowen, the McEwenite Country Party, and Prime Ministers like Mr. Fraser who demanded compensatory concessions before reducing Australian protection, should be judged. Protection is an act of robbing Peter to pay Paul. Unilateral trade liberalisation, however much it might be welcomed by our trading partners, is fundamentally restoration of equitable treatment for Australian exporters. Protection rarely punishes foreign competition as thoroughly as it destitutes the Government's own constituents unlucky enough to be engaged in the export sector.