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ON THE DRY SIDE

COLOUR TV 2

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If the Australian economy is to perform better so that we have, together, more rapidly rising living standards, less unemployment and lower inflation, productive processes must be freed from rigid legal restraints which prevent responses to changed circumstances and protect the economy's players from the need to change. Prices must be again allowed to signal supply and demand, at least as well as they did in the last century when we had spectacular economic growth, stable average prices and little unemployment. Products and methods which receive adverse price signals must yield resources to those which get the come on. This simple theory is, at least, as old as Adam Smith and is accepted by everybody but those people who get lower prices than they wish. That is everybody; who, though understanding the value of free markets to society, never the less, would like to make an exception to the price discipline of himself. Governments which grant the privilege of escaping prices to some favoured interests injure their nations. This also has been understood for at least two hundred years.

I don't know that any of the Hawke Government's spokesmen have recently put the principle in quite such general terms but several - Hawke, Button, Keating, Kerin, Walsh and Jones - have on several occasions implied acceptance of it.

With the major exceptions of health care and uranium, Labor's record with the supply side of the economy has so far been comparatively enlightened. They have: refused most of BHP's demands, floated the currency, further deregulated the capital markets, reduced protection for computers and computer software, are getting right out of the egg market, have allowed some trading in wheat on the domestic market, are promising to be a little more sensible about milk, have adopted a much less protective car plan and told the aero manufacturers to stand on their own feet.

Economic historians may yet smile on the last two years, in spite of poor fiscal management, the seeds of disaster in health and some very "iffy" labour market policy. They will certainly smile on Senator Button's and Mr Kerin's record to date.

I am therefor sceptical when I hear that Senator Button is about to cave in to naked vested interest and meet the demands of Colour Television manufacturers for import quotas. He has, so far, shown such good sense and political courage that even though the Electrical Trades Union is said to be powerful in Victorian Labour Party circles and even though it is an election year, I don't expect him readily to abandon the long term national interest or fairplay. I have less confidence in cabinet and, now that parliament has assembled, caucus may yet again defend narrow interests, the short term and the relatively well to do. I fear that the interests of consumers, of those scattered and hence unseen people who will lose jobs, and of future Australians, will be as chaff to the winnow in caucus. As will Button's arguments. In election years grain is votes in marginal seats and in party committees, and the general interest is chaff.

The colour TV industry has been heavily protected by the arrangement which is even more obscure and impossible to measure than import quotas - a voluntary export restraint or VER. Japanese manufactures restricted exports to Australia taking the profit which they would have made exporting in a competitive market by assembling high priced sets in Australia and by selling a limited number of imports at artificially high Australian prices. The VER is now breaking down and the cost of Colour TV sets falling. An egalitarian Labor Party should be pleased but assemblers of expensive sets are trying to escape price discipline.

The VER itself was a disgrace, in breach of General Agreement on Tariff and Trade principles and transferring millions of dollars from Australian consumers to Japan. The Whitlam, Fraser and, to date, the Hawke governments all conived in the VER. This was the real colour TV scandal meriting ministerial resignation.

When graces and favours were granted by Royal warrant and society made no pretence that men were equal, those who benefited could afford to boast of the King's favour. Now that governments are expected not to make favourites of some citizens at the expense of others, those who receive favours prefer to hide them. (This is why protected industries prefer hidden trade barriers to the more open subsidies and tariffs.) VERs and import quotas can deliver very high rates of protection without the cost to the community becoming readily apparent. It is difficult to measure by how much consumers' prices are raised because a quantitative limit is placed in the way of imports and any amount of inefficiency can be cloaked. An industry so protected can become increasingly less competitive and the margin between domestic and foreign prices get wider without further legislation. Quantitative restrictions (QRs) are a licence granted for sloth.

QRs are also a licence granted to the quota holder, to print money; or, more accurately, to tax it from consumers. As the margin widens between domestic and foreign prices quota holders can increase their margins pocketing the economic rent.

When a protected industry also holds import quotas it is twice favoured and would not want to be too closely scrutinised. It should not surprise us therefore that the Colour TV assemblers are seeking import quotas which protect them not only from imports but from the prying eyes of the Australian public. No doubt they also cherish the hope of holding an import quota themselves.

If this industry is to be protected, as in the short run it possibly should be, the best, most open way for the government to do it is by granting a taxpayer subsidy. If, for budgetary reasons the government can't bring itself to that, it should grant a tariff which is a relatively transparent consumer subsidy. If consumers' enforced charity must be hidden, then the quotas should be granted only to the Spastic Welfare or similar bodies and be fully negotiable.