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EXPORTERS PAY FOR TARIFFS

Most of us have heard it said that the burden of tariffs falls on exports; it has been repeated often ever since the Brigden committee in 1929 reported that it was so. Much more recently 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 the uncompetitive import competing industries.

Part of the cost of protection is a dead weight loss which while causing nations to be poorer has no compensating benefits paid to others. This is the result of the sheer inefficiency of using resources to do things which cannot be done competitively. The remainder of the cost is like a tax in that it transfers money and hence resources from one group to another within the economy surrounded by the trade barrier. It is only this tax which the professors measure, and it alone amounts to $4.376 billion 1977/78 dollars. (About $7.5 billion today.)

The purpose of a tariff is to enable Australian producers of import competing goods to raise their prices above the duty free landed cost of imports. These higher prices are either paid by other industries directly, as when steel and textiles are protected, or indirectly through consumer prices and wages, as when clothing and footwear are protected. The cost is passed from industry to industry until it reaches an industry which cannot pass it further. The buck stops with industries which sell in foreign markets.

The true protection received by an import competing industry is thus only the difference between the extent that it raises its prices and the extent that economy-wide wages rise. And since export prices are given by world markets, the extent of the wage rises becomes the export tax. For all those along the way the benefit of higher sale prices is more or less offset by higher wages and other costs. Seventy to eighty percent of a rise in prices above the duty free landed cost of imports is thus shifted as a tax on to export industries.

Supposing the proportion shifted to be a conservative 60% and the average tariff to be 30%, (which is much less than that given to cars or clothing) then true protection turns out to be only 10% and it is accompanied by a 15% implicit tax on exports. In other words, the same result would be obtained for everybody - import competitor, importer, exporter, consumer and government revenue - by a government which imposed a 10% tariff and a 15% export tax. How many politicians would like to have to admit that they are imposing a 15% export tax. This implied export tax is now as big a burden on export industries as all other taxes - shire rates, company, income and sales taxes together.

Protection is an act of robbing Peter to pay Paul. Protection rarely punishes foreign competition as thoroughly as it destitutes the Government's own constituents unlucky enough to be in the export sector. I submit that it constitutes a much bigger issue for mining and agriculture than land rights which is presently claiming their attention.