



## DAVE'S DAIRY

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### **Government can take credit for our car industry mess**

Ever since Clarkson has been a Member of Parliament he has been muttering angrily about the mess the car industry is in.

He says the industry is an ugly example of Government intervention and that the key to the problem is that the Government, way back in the early 1960s, encouraged firms to enter the industry by handing around lavish protection so now we have too many manufacturers of cars and car components.

In the USA they have four car manufacturers for a market of over 12 million cars while we have more than that for a market of 600,000 cars. This means the output of each factory is too small for efficient production. For instance, the minimum economic size of an engine plant is one big enough to produce 300,000 engines. So we should have at the most, two engine plants, but instead we have four. The result is that car users are paying an extra \$4000 a year for every man employed in making cars and components and exporters are being asked to pay an annual subsidy to the industry of at least \$400 million a year. That, says Clarkson, is a measure of the mess we have made of the industry.

There is now a tariff of 45 pc on imported cars. Clarkson says this is far more than would have been necessary if the industry was not fragmented into too many small plants. But now, because the industry is still in a mess, the Government has re-imposed import quotas on cars in an attempt to keep imports below 20 pc of the market. So even if an imported car can climb the 45 pc tariff wall, it is now still likely to be excluded if the import quota has been filled.

Clarkson says that when the Government introduced its new car plan in 1976 it made it clear the new plan was to stay in force, without quotas, until December, 1984. This made Clarkson a little happy because he knew that the industry had to be forced to change — that some factories had to disappear or produce something else so that those remaining could have an economic throughput. But since the Government made this bold statement it has been backing away from the problem and altering its plans. Every time a sector of the industry gets into trouble it goes weeping to the Government and the Government puts another band-aid over the sore. The result is that changes are not taking place, so the industry is still in a mess, so these import quotas are necessary, so the burden of the industry on the necks of the exporters is undiminished.

It is only a few weeks ago since the Prime Minister was eloquently castigating the wicked countries in the EEC for even contemplating imposing import quotas against our steel. But here we are stopping imports of their cars, even after they have paid us 45 pc duty!

And we are always growling at the Japanese for putting quotas on our beef and being mean about our sugar, yet we think nothing of putting quotas against imports of their cars. And we get impatient with the ASEAN countries because they even think of ceasing to buy our wheat and dairy products while we quite nonchalantly put quotas on the imports of their textiles.

We have always known that Clarkson, being a Member of Parliament, is a bit of a bore. When he first became interested in tariffs we were sure of it. But gradually we have come to realise that he is right about tariffs, if nothing else. We know now that tariffs impose a burden on export industries. And we know that by imposing quotas against imports from other countries we automatically invite retaliation and so encourage them to impose barriers in the way of our trade with them.

And even more important, but harder to see, we now know that because the way the exchange rate is now altered with changing trade balances, every barrier to imports coming in is an automatic barrier to our exports going out. This is so even if our actions do not actually cause retaliatory action — it is just an economic fact of life.

So from now on we will be watching the Government's activities in the field of world trade with an anxious, if not angry, interest. We note that Mr Howard has recently been appointed Special Minister to watch over trade negotiations. We hope he realises the economic facts of life and that it is no good criticising other countries for doing what we are doing ourselves, only worse.

It is also interesting that the Government decided to re-impose import quotas on cars on the same day that Volkswagen announced a price reduction. We soon put a stop to that nonsense. Yet the Government is always saying how it hates inflation.