



ECONOMICS MADE EASY

Part 1

2. Trade Barriers (General)

There are three ways in which a government can deliberately encourage secondary industry development in Australia. The most common way is to impose a customs duty or tariff on imported goods, enabling the local producer to increase his price. This encourages him to produce in Australia. Encouragement can also be given to a local producer by paying him a bounty from consolidated revenue for each article he produces. The third method of helping local industry is to allow the importation of a certain number of a particular kind of imported goods; this limited amount is known as the 'import quota'.

Until 1974, the Tariff Board had the responsibility of advising the government how best to protect Australian industry. Then the responsibility was given to the Industries Assistance Commission (I.A.C.). This body only gives advice to the government; having received that advice the government makes the decisions.

Every one admits that, in economic affairs as in other walks of life, there is no such thing as a free feed; some group will always have to pay for the advantage given to another group. It is the exporters who carry the cost of protection if tariffs or quotas are used, taxpayers pay for bounties. In 1979-80 they paid \$61.5 million in bounties to secondary industry. The cost of tariff and quota assistance is a lot harder to estimate accurately. In the middle seventies the cost was about \$4,300 million a year, and in 1980 the figure was over \$6,000 million. This figure is open to much argument but there is no doubt that the cost is high. Fred says that he is less interested in hearing about the difficulty of measuring the weight of the wagon as he is in the fact that the wagon wheel is crushing his foot!

Tariff protection used to be a lively political question years ago but it had ceased to be so when I entered parliament in 1958. Because of my father's past membership of the Tariff Board, and with his urgent encouragement, I took a morbid interest in the subject. I made many speeches on tariffs and acquired the ability to empty the House quicker than any man I know. Gradually, as the electorate became better educated, and because it became increasingly obvious that the tariff burden was gravely handicapping our most efficient industries, it became accepted by almost every one except the economic troglodytes that trade barriers ought to be lowered. The question now is, when? The government makes brave noises about doing something soon, then it gets cold feet. It reminds me of a penitent kneeling at his bedside, asking the Lord to make him better, but not yet!

Tariffs Paid by Exporters (1) (July 1976)

Eccles has been in one of his mean moods lately. He complains that I haven't been doing him justice in the way I present his argument that the burden of tariff protection is carried by exporters. He growls:

It's just not good enough to say glibly that all economists know that this is the case.

That's true enough, all economists indeed recognise that there is no such thing as a free feed and that someone has to pay the price of tariffs and the person who does the paying is the exporter.

But it's not enough just to say this, you have to explain to people like Fred and Mavis, and in words of one syllable.

You must go over it again so that he who runs may read.

So here we go again.

Even Fred can see that he pays the cost for tariffs imposed on things he buys, such as weedicides and agricultural machinery, because the tariff on these goods is put on solely to make the imported goods dearer so that Australian goods can be sold at a higher price.

So Fred doesn't have to be an economic genius to see that he pays the price for tariffs on the materials he uses.

But it is harder for Fred to see that the cost of the tariff on all the things he doesn't buy is paid by him also.

Even the tariff on brassieres is paid by Fred and his fellow exporters, though Fred is certainly not the kind of fellow who wears brassieres.

A tariff on brassieres gets built into the cost of living because clothing is a cost-of-living item.

So brassieres get dearer as the tariff on brassieres is increased and so the cost of living rises a little.

And the tariff on sheets, on cars, on paint, on anything at all, gets built into the cost of living and so increases Fred's costs directly, because everything he buys is made dearer.

Tariffs make everything that everyone else buys dearer also but these other people can recover the increased cost by passing them on to the man next down the line.

For instance, if brassieres become dearer and the CPI goes up, wages automatically increase to compensate, so the wage earner doesn't pay for the increased tariff.

Nor does the plumber who is working for himself, because he and all the other plumbers will be able to put their charges up too because their costs too have been increased.

So up goes the price of plumbing, retailing, medical services, and all the other goods and services, they all rise until they reach Fred, the exporter.

His costs rise too, but the merchant in Europe who buys Fred's wheat, wool or meat isn't moved when Fred complains that his costs have risen. You can hear him say:

How very sad, Fred.

But I can get my wheat for less in Canada so why should I pay you more?

So Fred and all other exporters pay the price for tariff protection for other industries.

They don't do this because they are noble or nice, or because they are prepared to sacrifice themselves on the Australian economic altar or anything like that.

The poor sods pay because they have to, because the company making brassieres, or something else, has kidded the government that there is such a thing as a free feed.

But Eccles says there is another side to the tariff burden, there is another price the exporter pays.

Eccles says that every action that prevents imports of goods and services coming in, by imposing tariffs or import quotas, has an automatic influence in discouraging exports.

It does this by placing greater pressure on the exchange rate, tending to move it in such a way as to discourage exports.

"If the government makes importing harder, it makes exporting harder also," is Eccles' mournful cry.

Now it is important that Fred doesn't get to know what is happening to him — that he doesn't find out that he is paying for the free feed for which the brassiere maker or other people are asking.

Fred and other exporters have been feeling the burden of increasing costs to be an almost impossible load lately.

Now even the increased weight of another brassiere would just about break Fred's back, if that's where he would carry it.

So if one day you find Fred burning brassieres it won't be because he is liberated, it is because he is sick of the burden he bears.

Tariffs Paid by Exporters (2) (November 1976)

When I am talking to secondary industry leaders, I find it hard to convince them that the cost of tariff protection is borne by exporters.

Most of them are too well-educated these days to believe, as did many once, that tariff protection is costless; that there is indeed such a thing as a free feed.

But many of them think that the costs of tariffs is carried by the community in general and not by the exporter in particular, as Eccles claims.

Indeed, they sometimes get quite hurt when I protest that my exporter farmers are not in a position to carry any extra burdens.

"Of course not. We wouldn't dream of asking them to, my dear fellow," some of them say. "The tariff cost is carried by everyone. The claim that the exporter pays is only an Eccles theory — it's only an academic argument."

And they usually round off their protestations by claiming that they understand the farmers' point of view because they either have a farm of their own, or have an uncle who is a farmer, and they used to go there for their school holidays.

I have even seen them doing a bit of furtive dabbling of eyes with handkerchiefs to demonstrate their earnest attachment to the man on the land.

These industry leaders were so eloquent about their regard for farmers and so certain that it is only an Eccles theory that the exporter carries the tariff burden alone, that I became a bit uncertain and went to find someone who would confirm what Eccles says.

The first person I met was Fred. No one can claim that Fred is a theoretical academic living in an ivory tower.

When I asked him whether he thought Eccles was right, his response was quick and angry. He snapped:

I'm not certain if Eccles is right or not, but one thing I do know and that is I am going broke.

And it's not because the price of what I produce is falling but because my costs of production are increasing all the time. And as the tariff increases these costs, then I guess that because I am an exporter I am carrying my share of the tariff burden.

But go and talk to some other economist, not Eccles, he gives me a pain in the neck.

So I went to the library and read again the Brigden Report¹ which, way back in 1929, spelt out the effect of tariff protection. The Committee's conclusions are summarised in one of the standard economic textbooks written by Samuelson, Hancock and Wallace. I quote:

The Committee undertook the important task of tracing out the effects of the tariff on prices and costs. It recognised that the "direct" effect on prices generated a series of "secondary" effects, as different groups adjusted their prices and incomes.

By comparing actual and free-trade prices, it estimated the excess cost of protection at £36 million. [This was 1929.] It was unlikely that this burden rested on wage-earners: the adjustment of wages for changes in the cost of living meant that higher prices for wage-earners were passed on to employers. But employers in turn protected themselves by raising prices. Where, then, did the burden come to rest?

The Committee's answer to this question was that the burden was borne mainly by those who could not adjust their charges so as to escape it.

These producers were to be found in the "unsheltered" industries, i.e. those exposed to the full force of foreign competition. The most important by far were the primary-producing export industries.

So it isn't just an Eccles theory. The awful truth is that the tariff burden is indeed carried by exporters. Be they rural, mining or secondary industry exporters, they pay the estimated \$4,000 million annual consumer subsidy inherent in tariff protection.

It may be that mining and secondary industry exporters are able to carry their share of this burden. But they should be warned that it is likely that they will have to carry the farmers' share of the burden also, because as the Bureau of Agricultural Economics points out, the farmer's real income is decreasing by at least 20 per cent per year.

And if this continues (as seems likely) then the others, the miners and the secondary industry exporters, will have to pick up and carry our load also when we cannot carry it any longer.

Eccles says that secondary industry leaders are not the only ones who labour under the delusion that the cost of the tariff is borne by the community in general and not by the exporters in particular.

He thinks that some politicians seem to think so too.

That explains the apparent indifference of the National Country Party members to the tariff problem.

Note: Brigden, J. B. and others, *The Australian Tariff, An Economic Enquiry*, Melbourne University Press, 1929.

The Cost of Protection (August 1977)

Eccles has been plodding after the tariff hare for years now and latterly I, too, have been wandering after it in a desultory manner.

Only those who have been engaged in a similar exercise will know the infinite labour entailed in doing the measurements.

Since electronic calculators have come in, the task has been made a little easier, but even with these adventitious aids, measuring the cost of protection has been an awful burden.

But now the IAC is doing the measurement for us and Eccles and I want to record our gratitude.

Let me give some examples. Eccles has been nagging me for years about there being no such thing as a free feed and that someone always has to pay for tariff protection to any industry.

But the problem has always been to measure the cost of the feed that some people long ago used to think was free.

It was a considerable breakthrough when Mr Henderson, the highly respected director of ACMA, that prestigious group of secondary industry statesmen, admitted that there was a cost of protection.

I quote him yet again with gratitude and approval:

I fully accept the IAC argument that the consumer must pay for tariff protection. There is no question about this. I will also accept the arithmetic that the cost is around \$4300 million annually.

But it is one thing to say that the total burden weighs about \$4000 million and another to break it up into its component parts, but this the IAC recently has been doing.

It told us some years ago that the burden of protecting the car industry was \$400 million and undoubtedly the cost of far higher now — at least \$500 million.

And now it has told us that the cost of protecting the textile, garment and footwear industries has been about \$800 million a year.

But that figure is a year old and is certainly higher now — around about \$1,000 million. So we can see that Mr Henderson's \$4,000 million is likely to be an underestimate when the other heavy industries are also put in the balance.

Another interesting figure of the estimated cost to the average household to protect these three industries is about \$200 each year for each family.

That's the kind of figure that even Fred can understand, though I don't think he will like it.

When I first became interested in tariffs I used to believe that, if Eccles exposed the economic facts of life so that he who runs could read, people would accept the economic logic of the argument, and so right would triumph.

Long and bitter experience has taught me that this is not necessarily so — right does not automatically triumph, not in the short term, anyway. But it probably will in the long term if I live till then.

The people who dislike the figures the IAC has given will abuse the IAC, the system, Eccles and even me and this will make them feel better.

But unless they can knock the figures out at the next IAC hearing, economic logic will win in the end. And indeed it is in the process of doing so.

For instance, when the IAC report was released, Mr J. E. Baird, the managing director of Onkaparinga Textiles Ltd said:

I think we are all learning to live with the fact that tariffs won't continue forever and that the industry has to gear itself to living with that sort of situation.

So people are learning to accept the inevitability of change, even if they don't like it.

Australians in general and exporters in particular owe the IAC a debt of gratitude for doing their measurements so fearlessly.

Back to the Farm (January 1978)

I suppose this article could also be entitled a worm's eye view because things look rather different from the grassroots level than they used to from Olympian heights occupied by Federal Parliamentarians.

What I was Fred's member he was always moaning about his rapidly escalating farm costs and I used to respond by giving him little lectures about looking on the bright side or comforting him by saying that he was suffering for the good of the nation.

Then Eccles began educating us about the size of the tariff burden which exporters have to carry, pointing out that exporting farmers are subsidising secondary industry by at least \$2,000 million a year.

But I admit now that this all seemed a little theoretical and, though I was sorry for Fred in a detached kind of way, I didn't worry about it as much as I should have.

But things look different now that I have again to wring a reluctant living from the land. I can now understand why Fred used to get so sour. You remember the verse:

*The toad beneath the harrow knows
Exactly where each toothpoint goes:
The butterfly upon the rose
Preaches contentment to the toad.*

My trouble is that this toad now knows what he didn't know before he became a member of Parliament. Then I used to think that rising costs were an affliction from on high, like droughts or floods.

This didn't make me like cost increases, but because I thought they had natural causes I used to get more hurt than angry about them. But now I know that at least \$2,000 million of farmers' costs are caused by the tariff, so I now get angry as well as hurt.

And I can now understand why Fred takes such a jaundiced view of politicians who mouth endearments to him at election time but who clobber him with tariffs for the next three years.

Because Eccles has taught Fred and me about the size of the tariff burden we bear, we now get mad as well as sad, and it hurts a great deal more to know that it is a burden deliberately imposed by a Government that says it loves us.

But even more hurtful is the knowledge we now have about the size of the tariff burden which has been weighed by both the Industries Assistance Commission (IAC) and the Australian Woolgrowers and Graziers' Council (AWGC).

I think the main reason why the high protectionist lobby hate the IAC as they do, is not only because the IAC spells out the position fearlessly, but chiefly because they have had the nerve to measure the weight of the tariff burden.

There was a time when the high protectionists used to kid themselves and us that the tariff burden was weightless, that there was indeed such a thing as a free feed, but most of the people who used to think that way have died off by now.

Now the high tariff lobby takes refuge in saying that measurements of the tariff are so imprecise as not to be credible.

This is where Fred and I would like to be heard. We will cheerfully admit that measuring the weight of the tariff burden is far from easy and it is certainly beyond our competence.

But both the IAC and the AWGC have measured it, and, what is more, have spelt out their methods of doing so.

If the high protectionists do not agree with the methods these groups have used we suggest that they get busy and do their own measurements. They should remember that even their own officials admit that the tariff imposes burdens on export industries.

Surely it is only proper that we should know the weight of the burden.

Fred says that if your foot is being crushed by a waggon wheel, it is no comfort to be told that it is difficult to measure the weight of the wheel. What really interests you is that it is crushing your plummy foot.

Both Fred and I are sick of being told that we should not worry about the weight of the tariff burden just because it is hard to measure it accurately.

I used to take refuge in that kind of excuse when I was an MP, but now this toad knows exactly where each tariff toothpoint goes.

Boatbuilding (December 1977)

Some readers of this column have been critical of Eccles and me when we claim that the tariff burden is both real and big. They say:

All this talk about \$4,300 million tariff cost is only an economic theory. Only academics really believe that tariffs impose a cost on other sectors of the economy.

Fred gets angry when he hears this kind of talk.

Once upon a time he thought that a tariff was the charge for bed and breakfast in a hotel in the city. He knows differently now and I suggest that some of the high protectionists try telling him that the size of the tariff burden is all in his mind or is a creature of Eccles' twisted economic theories.

Fred used to enjoy being angry about tariffs, but not any longer.

Now, with the meat very close, indeed, to the bone, with costs overtaking any small increases in prices for his products, he says that it's about time that other members of Parliament who claim to represent farmers in Parliament came to the assistance of Eccles and me in our efforts to get the tariff burden lightened just a little instead of being increased all the time.

Still, in spite of all Fred's urgent admonitions, I sometimes privately wonder if Eccles isn't getting me in a sweat about something he's just thought up.

But when I start thinking in this fashion, along will come some factory owner who claims that his profitability and employment giving opportunities are being diminished by the operation of the tariff system.

He will point out that he is the user of some heavily protected raw material, the cost of which is made a great deal dearer by the tariff. I often hear him complain:

If only I could buy my raw materials cheaper, then I could compete with imports.

Please do what you can to get the tariff of my raw materials reduced then I will be able to compete with imports and so employ more people.

Then, unfortunately, he almost always added the rider that he would be grateful if I didn't mention his name or circumstances when pressuring the Government on this question. He says:

It isn't really that I'm frightened, but I like to keep in with the good and the great in the Government.

Besides, the Chamber of Manufacturers doesn't like it if someone steps out of line. And I have to buy and sell in the market and people get rather nasty if I get out of step.

So do what you can, old man, but please don't use my name or let the media know the details of my case.

So it was with some interest and relief that I saw the *Four Corners* program on March 19 in which a boatbuilder spelt out the damage of the tariff on fibreglass and other boatbuilding materials to his business.

His employment giving opportunities had been damaged by the much vaunted tariff system which is said to do the exact opposite. I quote from the script supplied by the ABC:

Boatbuilder: The main problem really is the duty on the imported material against the duty on the imported boats. For example, we are paying an average rate of about 40 per cent on our raw materials. Yet you can import a completely built up boat for about 15 per cent duty. So this makes it almost impossible to compete.

John Temple (interviewer): Why do you use imported material?

Boatbuilder: The Australian material is still more expensive. For example, fibreglass. We are paying an average of 20 per cent more for Australian material so it is still cheaper to import than use Australian.

John Temple: It sounds as though you are telling me that the Australian tariff structure is going to be the end of the Australian boatbuilding industry.

Boatbuilder: Exactly. They changed the Tariff Board to the Industries Assistance Commission and I don't really know what industry they are assisting. They are certainly not assisting us. We would have an advantage over imports if they abolished all tariffs. If there was no tariff on boats or imported material we would have an advantage over the importers. So something has got to happen or we will just have to give it away.

Now if Eccles or I had written that, mean minded little men would have said it was economic theory. But it isn't.

It is the poignant plea of a battler trying to make a crust, competing against boatbuilders in other countries which do not weigh their boatbuilders down with tariff burdens designed to help but which more often hurt the secondary industries they are said to serve.

Tariffs and Employment (1) (September 1976)

On 15 April 1975 one of our more inane Members of Parliament asked the then Treasurer, Dr Jim Cairns, that if printing a little bit of money helped to lessen unemployment, why didn't he print more of the stuff and get rid of the problem altogether?

Dr Cairns startled us all by replying that was exactly what he had in mind. The utter awfulness of that answer seemed to mark the beginning of the decline of all economic responsibility until, too late, Bill Hayden tried to bring the economic ship round before it hit the rocks of ruin.

The behaviour of some of our more primitive people today reminds me of the answer by Jim Cairns.

Ask these people: "If a little increase in tariff protection would bring about a small fall in unemployment, why not have an even higher tariff and get rid of unemployment altogether?" and they would probably reply, like Dr Cairns, that that was a splendid idea and was exactly what they had in mind.

Dr Cairns was talking economic nonsense and they would be too.

Everybody with any economic understanding knows that, though employment may be increased in a particular industry by increasing the tariff, yet the gain in employment would be at the expense of employment in other industries.

Perhaps employment would be lost in industries using the protected product which has been made dearer; perhaps it would also be lost in the export industries which have to pay the price of protection in the end. Their employment opportunities would be limited by having their production costs increased by the increased tariffs.

Anyone with any economic training knows this and Eccles has even been able to belt it into the brain of a Modest Member. But when economic illiterates talk about tariffs creating employment, too few people publicly clobber them for talking nonsense, and the reason is easy to understand. It's a simple matter for a Member of Parliament to thunder eloquently and angrily if an industry in his electorate is not getting enough tariff protection; he will be able to point an angry finger at the Minister and with a sob in his voice will talk about the poor unemployed people being flung onto the scrap heap and so on.

If he is a smart sod, he will arrange for his local television station to come down to the factory gate on a cold morning and show the closed factory gate with a woman in an apron with three barefooted children at foot. She will wipe her eyes and ask with a faltering voice: "How can a government do such a cruel thing?" And then she will burst into tears.

You can imagine what an impact that kind of programme will have on the public!

But the employment which would be lost in the user or export industries cannot be pinpointed, there would be no television pictures of them because they are spread thinly throughout the country. Perhaps the damage will occur in the form of employment foregone — employment that would have happened if the cost increase had not occurred. But you can't take photos of people who are not yet employed.

Or perhaps the unemployment effects will be caused by retaliatory action taken by other countries that have been damaged by having their goods kept out of our country by the tariff.

For instance, the Philippines have recently taken retaliatory action against our exports to the Philippines because of the restrictions we have placed against Philippine textile exports to Australia. But we exported about four times as much to them as they did to us, and much of our exports were dairy products. No one seems to worry about the adverse effects on the dairy industry.

It is hard to photograph this kind of damage; it isn't as though they were shooting the unemployed cow-cookies like they were shooting the cows! Evidently you have to shoot somebody or something to attract attention.

Eccles is always eager to edge me into the tariff firing line, but it isn't a pleasant place to be, particularly in parliament these days.

It is all very well to propound pure economic logic, but it is hard to match a Member of Parliament beating his breast with the unemployment wind behind him.

It is true that Eccles and indeed everyone with any economic understanding, knows that I am in the right, but there are not enough of these about for comfort.

Tariffs and Employment (2) (March 1978)

Last week we discussed ways to make a member of Parliament face up to the tariff question.

I pointed out that it was absolutely necessary to get a good tight grip and to hang on like blazes as soon as his footwork starts to dazzle the audience.

That is the time to say loudly, even rudely, that you demand answers to your questions and not a smart display of the side-ways shuffle.

And you must have others in your group ready to chip in with an irreverent interjection or two.

Your friends will be a bit nervous about behaving like this, as they are probably like you used to be, namely, quiet, retiring gentlemen.

But you know, and I hope that they also know, that the tariff burden will be the end of half of us unless we can get at least some of it lifted from our backs. So the time for being nice to members of Parliament has gone.

One of the ways your member may try to escape your grip on his ear is to claim that tariffs are necessary because they create employment.

If he tries to escape through that bolt-hole you should complain to the chairman that the member is talking nonsense and that you can prove this either now or later.

What happens then will be up to you and your supporters, but you must be ready with some facts and figures in case you get a chance to use them.

You should have handy the accompanying table which shows quite conclusively that the percentage of our workforce employed in secondary industry has been falling steadily since 1921, as has the employment of primary industry.

This is the same picture that appears in all developed countries.

I suggest that you cut this table out of the paper and put it in your wallet:

PERCENTAGE OF WORKFORCE EMPLOYED IN SECTORS IN AUSTRALIA

Census year	Primary	Manufacturing	Tertiary
1911	29.9	28.7	40.4
1921	25.8	31.2	42.0
1933	22.2	23.2	42.2
1947	17.3	26.0	49.5
1954	15.0	27.8	55.1
1961	12.1	27.0	55.4
1966	10.6	27.0	62.4
1971	8.8	23.2	67.1
1975	6.7	21.4	69.8

It makes nonsense of the claim that it is only secondary industry that can employ our people. And, indeed, about half of secondary industry does not depend on tariffs and the employment opportunities in this group are hindered and not helped by the tariff.

For instance, Eccles has always claimed that BHP would be much more competitive with overseas steel makers if the cost structure was not adversely affected by the tariff.

So you can properly claim that the employment opportunities in the economy in general, and in secondary industry in particular, are hurt rather than helped by the tariff.

But you can also truthfully argue that the lavish protection given to some industries has not helped employment in those industries.

For instance, the car industry is being protected both by tariffs and quotas so that it is hung like a great albatross around the neck of the economy, yet employment in the industry continues to fall.

New car registrations in 1977 were 561,468 compared with 603,000 in 1976. This was the fourth successive fall in a row. And the reason is that cars have simply got too dear to buy.

I used to be a member of the Automotive Industry Council and we used to meet in Canberra every few months.

And each meeting began, not with hymn and prayer as at a devotional meeting, but by wailing at the wall by almost everyone who wanted even more generous treatment from the government.

So the trade barriers went up and up, as did the price of cars. So the demand fell steadily as did employment.

I suppose the next thing the council will want from the Government is a law compelling people to buy cars, whether they want them or not.

And I am told that the same thing is happening in the textile and clothing field. Clothes have now got so dear because of the lavish protection afforded the industry that people are naturally making their clothes last longer, or are travelling to Singapore to buy clothes.

And certainly many more people than ever are making their own clothes. So the next thing the industry lobby will want is for the Government to pass a law to make people buy more clothes.

So if your member takes refuge in the spurious argument that tariffs are necessary to create employment, you clobber him with a few facts. When he talks that kind of nonsense, screw his ear like blazes.

Tariffs and Secondary Industry (May 1978)

Ever since April 6, when I heard the Prime Minister in a radio interview say that without tariff protection we would have no secondary industry at all, I have been trying to forget that I heard him say it.

After all, he was my leader once and he is a powerful Prime Minister now, able to make me ambassador to Outer Mongolia, were Mavis longs to go.

So the temptation to pretend that I hadn't heard him was hard to resist. But someone had to point out the error of his ways and the poor Labor Party Opposition is hopeless, so I suppose I must do my duty, painful thought it be.

And, to tell the truth, I don't really want to go to Outer Mongolia. It is Mavis who is pushing to go there.

The Prime Minister has said many quaint things about tariffs.

I don't mean his lectures to the rest of the world because of their wickedness in putting barriers in the way of our trade with them at the same time as he is busy erecting high tariff and quota walls to keep their goods from coming here.

Nor do I refer to this very questionable attacks on the 25 per cent tariff cut, when almost every economist knows that it was not the tariff cut that did the damage to industry, but the currency appreciations and wage explosions that occurred at the same time.

These and similar statements are defensible in a lame kind of way though I have heard no reputable economist try to do so.

But rather do I refer to statements of the Prime Minister which no one would try to defend and which I guess even he tries to forget.

Typical of the latter group was his statement last year: "Employers are tending to use machines rather than people in the productive process and if tariff protection for Australian industry was reduced, this trend would worsen."

This display of primitive economic Ludditism made Eccles' thin blood run cold, and Fred had visions of going farming again with horses to create employment.

Then there was the queer statement that we needed to have high tariffs because of the high cost of overseas freight, when everyone knows that our high freight rates give a considerable natural protection to our industry. So tariffs should be lower rather than higher as a result.

This latest statement by the PM, that without tariffs we would not have any secondary industry at all, is another example.

He must know that 40 per cent of our secondary industry does not depend on tariffs at all.

Some industries are just good at their task, others have natural advantage or natural protection such as given by high shipping costs.

There are examples without end, starting with food processing, building bricks, beers bottles and so on and on.

So we would have this 40 per cent of our present industry without any tariffs at all.

But, in addition, this sector would be healthier because it would not be lumbered with the burden of carrying the highly protected sector around as they do now.

So, though our secondary industry would not be of the same composition as it is now without tariffs, it would be far bigger than usually thought.

Victoria had a high tariff since 1860, so you would expect Victoria to be far more industrialised at the time of Federation than was NSW, which was free trade until she joined the Commonwealth.

But this was not so. The proportion of the State production from manufacturing was about the same in both cases.

Victoria had more of the heavily protected industries, such as textiles and footwear, but the cost of protecting these had to be carried by other industries, so these were weakened.

In NSW they did what came naturally and so did not burden their efficient industries by making them carry the weak ones.

So the amount of secondary industry was about the same in both States.

It would be asking too much of a busy Prime Minister to expect him to know this bit of history. But this is no excuse for his saying that without tariffs we would have no secondary industry at all.

He just cannot be as economically ignorant as that, when he is so wise about other things.

It is a great pity that it falls to my lot to have to point out the rather primitive gaps in his understanding about tariffs just when Mavis is desperately trying to get me posted to Outer Mongolia, but I suppose I must just do my duty.

Twenty-five per cent Tariff Cut (July 1975)

When the Government announced its across-the-board tariff cut of 25 per cent in July, 1973, Eccles pushed me out on the political limb and made me publicly support the Government while the Opposition, in general, was critical.

Now I find that the Government is recanting on its tariff principles and there is a general tendency to assume that the cut was wrong. Eccles and I still think it was right.

The problem in 1973 was correctly thought to be that Australia needed more imports. We had then a great demand for almost everything in Australia and prices were rising because demand had outstripped the supply of goods. There were many reasons for this and one, of course, was the industrial strife that dogged us. The economy was booming, and we were in a state of over full employment. There were just not enough goods to go round, so a deliberate effort was made to increase the supply by importing.

There were two ways of doing this. One was to alter the exchange rate, to up-value the currency which would make imports cheaper. The other way was to reduce tariffs by 25 per cent across the board. The Government indeed used both methods but it is the tariff reduction that has drawn all the criticism.

Both the exchange rate appreciations and the tariff cuts encouraged imports but it is estimated that the 25 per cent tariff cut had about the same effect on imports as a 4 to 5 per cent exchange

appreciation. Yet since the Government has been in office the currency has been appreciated by over 20 per cent. So the exchange rate appreciations would have had about three times the effect on imports than has the tariffs cut. But because the tariff cut was visible for all to see it drew all the criticism.

We know that, in theory, we should have a floating exchange rate as advised so cogently by Professor Friedman. If we did, we would not have to face all the trauma involved in a tariff cut. But even if a truly floating exchange rate is not possible, and no one will tell me why it isn't, then surely no one will argue that we could have left our exchange rate as it was in 1972.

It is true that the rate doesn't have to float, it doesn't have to alter a little each day, but at least it has to change in a few large steps once a year or so, as the Australian currency situation changes in relation to the rest of the world. So small changes each day, or a large traumatic change each year or so, there just has to be. And the sum total of these changes, be they a lot of little ones or a few big ones, affects imports more than the tariff cut.

The tariff cut was blamed because imports compete with Australian production, yet the rise in wages has been far more significant in making our manufacturers uncompetitive with imports. For instance, if you look at the knitting industry which has been blaming all its ills on the tariff cut, you will find that the cut has been equivalent in cost terms to a rise in wages of between 6 per cent and 13 per cent. Yet the actual rise in wages between December 1972, and September 1972, was 60 per cent (56 per cent for men and 73 per cent for women). Giving women equal wages with men increased knitting costs in a way that has made imports much more damaging than tariff cuts.

I suppose that, looking back on 1973 with all the wisdom that comes with hindsight, it may have been better to have encouraged imports by appreciating the exchange rate even more, about 4 per cent more, in fact.

Both methods would have been about equal in their effect, but there is no doubt that the cause of tariff reform has been damaged by the vociferous and illogical blame that has been fastened on it by industry leaders who have found themselves affected by escalating wage costs, strikes and inflation.

But the tariff cut has been blamed because it is an easy weapon with which to beat the Government. But that doesn't make it the right one to use.

As the Brigden Report said in 1929:

The most disquieting effect of the tariff has been the stimulus it has given to demands for government assistance of all kind with consequent demoralising effect upon self reliant efficiency throughout all forms of production.

Eccles and I are unrepentant and still think the Government was right in 1973 and what's more, we don't care who knows it.

Tariff Pressure (July 1974)

As you know, Eccles is an economist who lives in an ivory tower in Canberra and he is always preaching the message that for the wellbeing of the economy we should concentrate on using our limited resources to the best advantage.

To do this we should encourage those industries for which we have a natural advantage and discourage those which can only exist behind a high tariff wall.

You will remember too how indifferent I was at first to his blandishments and how I only became interested in this dull and unrewarding subject when my rural constituents, most of whom are exporters, became aware of how they were being damaged by having to pay the costs of tariff protection because these are always passed on to exporters in the end.

Then Mavis got into the act. She has never been quite sure what tariffs really were or why they mattered but when she found that my farmers wanted lower tariffs she too started to get on my wheel. So a lower tariff advocate I became. For a while all went well. Lower tariff protection became almost respectable and I began to bask in my knowledge of the subject.

And then all the good and the great, the wise economic journalists and the omnipotent academics suddenly discovered a new found respectability in Eccles' theories and he became intolerable.

But now Eccles is beginning to feel the cold wind of disapproval blowing about his ears, he is feeling the agony of having his theories nailed to the cross of action. And it hurts.

He has taken some comfort from the words of Adam Smith who long ago pointed out the pressures which people who advocate lower protection have to withstand:

The member of Parliament who supports every proposal for strengthening tariff protection is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose number and wealth render them of great importance.

If he opposes them, on the contrary and still more, if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and detraction arising from the insolent outrage of the monopolists.

So it was no surprise to Eccles to find that the hosts of the Philistines are gathering against him. And they are gathering indeed, and to some effect.

They came and smote the cause of righteousness when the Tariff Board report on electronic components first appeared.

They have since appeared to full force, led by the queer combination of Mr Hawke, hand-in-hand with Mr Burgess for the textile manufacturers, and have made the Government alter course yet again and hand out another generous dollop of protection to textiles.

And now the report of the IAC on cars has appeared, full of economic wisdom, full of sound comments about how too lavish protection has encouraged the unwise fragmentation of our car and component industries, and giving sensible solutions for the future.

But though the economic wisdom of the report is unexceptionable, nevertheless there will be great pressure to water it down even though it recommends a readjustment period of seven years.

But Eccles doesn't like the cold wind of criticism and is distressed to see his economic logic questioned, so he has retreated in a huff to his ivory tower.

As he drew up the drawbridge he was heard to mutter angry comments about cowardly politicians, and there were some parting admonitions for me to stand firm in the cause of righteousness and to smite the hosts of evil hip and thigh. “Right will eventually prevail,” I think he said as he slithered up the stairs.

So here I am, left to carry the low tariff torch which Eccles has hurriedly dropped as it started to burn his fingers.

My comfort is that all sensible people such as the four wise men who wrote the rural policy Green Paper, all the economists who haven’t run to water, and thank heavens, my farmers, will be at hand to help me now that Eccles has shot through.

But it isn’t going to be easy — ask Adam Smith.

Tariffs to keep down Prices (March 1971)

Eccles is always charging around on his tariff hobby horse and this week he tried to drag me up behind him. But it’s not very comfortable riding pillion behind Eccles.

Not only does he go too fast, but I can’t see where he is going, and I get confused.

And having to hold your bowler hat on with one hand isn’t easy with old Fred the farmer throwing clods to make the horse go faster, and Mavis trotting along the other side, urging caution on me.

So I have had to tell Eccles, quite firmly, that although I am prepared to listen to his plea that we use lower tariffs to help keep prices down, I will do it in my own way and at my own pace.

Both Fred and Eccles are disappointed with me, but I can’t help that. I am the plodding type.

Eccles is sure that there are several ways we could use lower tariffs to help keep prices down.

He came back again to the Australian iron and steel industry.

We have discussed before how this industry is held up as an example of success of the infant industry argument to justify tariff protection.

I remember pointing out then that the infant was now a giant heavyweight that surely did not still need an infant’s nurture.

But the milk bottle is still kept handy in case it wants a swig. It is true that Australian steel is competitive with steel imported duty free, yet a tariff is kept there.

BHP are very good at making iron and steel — no one contests that. But they are a monopoly, so there is no price competition from within Australia.

If the iron and steel tariff wall were dismantled, prices would be kept down at least to import parity.

It is true that BHP do not use all their tariff protection on their main lines, because they are good at making steel.

But there are many lines they do not make just because the demand for these sizes is small.

Yet if a structural engineer wants for some particular reason, to use these sizes, he has to go through the expensive process of fabricating it, when it would be much cheaper to import it in the ready rolled form.

But if he does this, the import duty makes it unnecessarily dear.

In short, Eccles admits the validity of the infant industry argument, but thinks that when an infant gets as lusty as BHP, then the milk bottle should be put firmly away.

But Eccles has other ideas about using tariff reduction to keep prices down.

There are many industries which have not been reviewed by the Tariff Board for many years and where the protection is inordinately high.

The machinery section is a case in point. Here the duty is often as high as 55 per cent and the effective rate as high as 80 per cent.

Manufacturers can give way to demands for increased wages with impunity, knowing that their increased costs can be passed on behind the shelter of the tariff wall that is unnecessarily high.

Eccles is trying to work out a way of denying tariff protection to industries who pay over award wages.

It is an attractive idea and it would certainly help to keep prices down if we could do it. But it is not as simple as it sounds. I wish we could do it.

Eccles says that the Government is going to make public its tariff protection guidelines.

He is glad about this, but is desperately anxious that this policy statement should make it clear that high tariffs are a burden, not only on farmers, but also on secondary industry exporters, and that if we are to have sound development, we must use our limited resources where they will do the most good.

It is true that sometimes this burden may be worthwhile, but always it must be measured and justified.

Fred takes a simpler line.

He says that if I don't get off my tail and get tariffs reduced, he will cut my liver out.

And I've got a lot of Freds in my electorate.

I think I'll ask Eccles for a lend of his horse.

Tariffs and the C.A.I. (June 1978)

As most of my readers are aware, Eccles is a mournful man, so when he came to stay with Fred wearing a wide smile last weekend, we were quick to enquire as to the cause. He explained that he was cheerful because there were signs in Canberra that the thinking part of the private sector

was beginning to face up to the facts of economic life and to recognize at last that the policy of protection at any price was getting us nowhere at home and was making us look rather silly abroad.

The event that made Eccles so excited was the report of a meeting of the Confederation of Australian Industry (C.A.I.). This is what its title suggests, a confederation of all the organizations that represent people or companies that make things. This badly needed group has been formed only recently and contains not only manufacturers but also representatives of rural and mining industries as well. Eccles now admits to me in private, and with a proper sense of shame, that he was unhappy when he heard that the representatives of the rural organizations were going to be linked up with the high protectionists in the manufacturing lobby. He feared that the rural voice would have to be so muted in order to keep the peace that it would hardly be heard. He also feared that the rural groups would have to compromise their principles too often.

However, it hasn't worked out like that. Eccles brought with him a report on a forum conducted by C.A.I. on 19 June 1978, where there was some discussion of tariff policy. Sir Samuel Burston spoke for rural producers and said again what he has said so well and so often, how tariffs impose burdens on exporters and that bounties do not, and that we should concentrate on those industries where we have natural advantages and that the high protection of recent years has discouraged structural change in secondary industry.

Then Mr George Mackay of Electrolytic Zinc, spoke on behalf of the miners and said: 'Protection reduces the size of the economic cake and the exporter's share of it. Opponents of structural change must remove their Luddite blinkers and accept that indiscriminate protection weakens the economy as a whole and the export sector in particular. . . Protectionists should therefore accept that a reduction in the level of protection, properly directed, is desirable in their own interests.'

I know how this would be music to Eccles' ears. He has often regretted that miners, who live by exporting, have not joined the farmers in the tariff battle but have left us to fight their battles as well as our own. The Australian Mining Council appears frightened to express opinions that the government may not like. But those days are done if Mr Mackay spoke for the mining industry on 19 June.

However, Eccles was most excited by a paper prepared by Sir James McNeill, chairman of B.H.P., who is reported to have said that there were four reasons why secondary industry would not suddenly disappear if the tariff wall were demolished at one fell stroke (which no one has even suggested). First there were many sectors that were holding their own now without protection and these would be even healthier. Secondly, many producers would gain by being able to buy their raw materials cheaper if tariffs were withdrawn. Third, in the shakeout that would follow a lowering of tariffs, some of the weaker firms would disappear, leaving more elbow room for efficient firms. And fourth, even if the outcome was a sharp increase in imports, then the corresponding effect on the exchange rate would benefit the remaining firms and the rest of the manufacturing sector.

Then Sir James went on to say that even if some people's worst fears were realized, the decline in employment would only be in the range of about two or three per cent and this would be quickly taken up by a four per cent growth rate which would be an easy target if we concentrated on what we were good at.

I know how pleased Eccles was to hear such sense talked by a representative of B.H.P. He has always held the company up as a shining example of a company which would benefit greatly if its cost structure was not increased by the tariff. B.H.P. has many natural advantages for making cheap steel and its people used to be proud of the fact that they made the cheapest steel in the world in some sizes and grades. They could do this again if they were not forced to carry the same tariff burden as we exporters. To hear the chairman of B.H.P. recognize this is indeed a red letter day for Eccles and me. Perhaps all the battles of the past are going to be worthwhile. Won't I have a wonderful funeral?

Tariffs and the P.M. (October 1979)

When I listen to speeches made by the really important people in Canberra, the ones written for them by speech writers, I go weak at the knees with envy and admiration. Let me give an illustration from a speech made in August this year at Lusaka in Africa by the Prime Minister. I quote from it with proper reverence:

The concept of economic interdependence is not without its ambiguities and is sometimes put to questionable polemical use. But when all reservations have been registered the fact remains: our fates are inextricably intertwined and in the contemporary world no society is an economic island.

You can see what I mean when I talk about the grandeur of it all. It is true I have some trouble understanding the meaning, but you have to admit it sounds magnificent.

But it was later in the same speech that I really pricked up my ears. For one thing, I could understand what was being said and, secondly, I agreed with it whole-heartedly. This time I quote with understanding and approval:

The Australian view is that there is also an inescapable link between inflation and protectionism. Each feeds on the other and each frustrates the aspirations of developing countries. There is no doubt that the adverse effects of higher inflation in recent years are largely responsible for the drift towards protectionism ... Defensive protectionist policies exacerbate the situation they are meant to deal with, in that they result in an inefficient use of labour and capital resources. They are inimical to general economic recovery and put the future growth of developing countries in jeopardy.

Well, what do you think of that? When I showed it to Eccles he said "I couldn't have said it better myself!" and that is the highest praise Eccles knows.

There was a time when I would have been wary about what appears a change of heart by the Prime Minister. I once thought that he had two speech writers, one who wrote the nonsense he used to talk in Australia about handing out tariffs to any industry that had a strident voice and a readiness to kick in the ruck. Then there was the other more educated chap who wrote sensible stuff for the Prime Minister when he was overseas. I thought that these two speech writers must have had a row or something and so they never spoke to one another. But now I am getting hopeful that Mr Fraser's emergence as a recognised world figure has made him realise that he can no longer act on the world stage as a world statesman talking about the virtues of lowering the barriers to world trade and then come back home to practise what he has been so eloquently and properly condemning while away.

The economic experience at home would also be nudging him along the same road. He must by now have become acutely aware that there has been a steady fall in employment in the very industries that have been so heavily protected at such high cost to the economy in general and

the export industries in particular. So I think the Prime Minister really means what he says now. At least, I hope so.

Bounties (1) (September 1978)

We seem to have a good harvest looming in our district and it is about time too. In order to handle our bigger crop Fred and I have decided that we will both trade in our rather ancient tractor-drawn power-take-off grain headers and buy a big selfpropelled machine between us. This will mean that we should not have to employ any extra labour for harvest, labour being so dear in weekly hire terms and even more so when the cost of fringe benefits is included.

I know that I am taking a bit of a risk going partners with Fred who is inclined to always want to do things his way, and in his own time. But we can see so many clear financial advantages that I have no doubt we will get along together all right, particularly as I am very easily managed. Mavis has seen to that.

After some argument (won by Fred) we decided on the machine we want and you can imagine Fred's reaction when he found that we would have to pay over \$3,000 in customs duty because it is an imported machine. To make matters worse, Fred found out that this \$3,000 escalated to nearer \$6,000 by the time the various mark-ups had been added. So Fred had some very nasty things to say about Members of Parliament, past and present. 'How can they do this to us, Bert?' he almost sobbed. 'We have to sell our wheat in competition with the wheat growers in Canada and the U.S.A. who can get their machines for thousands of dollars less than we have to pay for the same machine when the freight and handling charges are added to the duty. We must ask Eccles to give us a lecture on the subject as you don't seem to know much about it.'

So Eccles came and talked to a little meeting of farmers. When we had explained our problem he said that the best solution would be for the government to assist the Australian implement industry by the bounty method instead of by tariffs. Then he explained again the difference between the two methods of assisting Australian industry: how tariffs increased the cost of headers and so imposed a direct cost on farmers. But if a bounty was paid from consolidated revenue at the rate of so much a header, then the cost of assisting the industry would be carried by the taxpayers in general, and not by the farmers in particular. Eccles said that our tractor industry was assisted in this way and he thought that our header industry should be also.

Eccles can be a persuasive blighter when he gets down to our level and by the time he had finished we could clearly see the solution to our problem. So we formed a small action committee to tackle our Member of Parliament and the others were decent enough to make me chairman. I was glad about this because it will give me the chance to give my successor the rounds of the kitchen in the same way as Fred used to treat me. I thought that our case was so clear that we would only have to state it and the government would immediately agree but Eccles warned me not to be too optimistic because, though our case was clear and fair, neither secondary industry nor governments were generally in favour of bounties.

The main reason why secondary industry leaders do not like bounties instead of tariffs is that with bounties, the cost of assistance is there for all to see. It appears each year in the budget papers instead of being hidden away as it is with tariffs. It is only recently that the Industries Assistance Commission has been measuring how much tariffs are costing the community and this is the main reason why the more irresponsible sectors of secondary industry hate the I.A.C. as they do. For instance, a bounty figure of over \$500m each year to assist the car industry would be a bit startling while \$700m to assist the garment and footwear industry would look

even worse. So secondary industry is usually against using bounties rather than tariffs to protect industry, but our agricultural implement makers may well be more responsible. They must know from recent experience that they can only be healthy if the farmers are prosperous.

Eccles says that governments are not usually in favour of bounties because the bounty money has to be collected by taxation and governments hate raising money, though they love spending it. But there have been some encouraging signs lately that the government is becoming more aware of the costs that tariffs impose on the economy in general and on farmers in particular. So we are justified in being hopeful.

Bounties (2) (March 1978)

As Eccles has often told us, there are two main ways of protecting an Australian industry from overseas competition. The most common is to impose a customs tariff in order to make imported goods dearer. For instance, the government has put a tariff of 15 per cent on imported headers to protect the Australian header industry. If the price of an imported header was 830,000, the 15 per cent tariff would raise its price by 84,500 and this would allow the Australian manufacturer to raise his price by that amount so that he could compete on more equal terms with imported headers.

However, the imposition of the 15 per cent tariff obviously increases the price of Australian and imported headers by 84,500, so this increased price is paid for by the farmers who buy them. But the grain reaped by these headers is sold in competition with farmers in the U.S.A., Canada and elsewhere and their farmers can buy headers for 84,500 less than our farmers have to pay.

The government is apparently aware that this imposes a burden on Australian farmers because it has not used tariffs to protect our Australian tractor industry, but has done this by using bounties instead. We want it to use bounties instead of tariffs to protect our header industry also. Under the bounty system, the government would pay a bounty of, say, 84,500 for each header of a comparative size made in Australia so our header industry would receive the same amount of assistance as now but the assistance would be paid by the taxpayers in general, instead of by the farmers in particular, as happens now.

The farmer organizations, realizing that the present position was wrong, began a campaign in December 1977, asking for an Industries Assistance Commission (I.A.C.) enquiry into whether or not the government would be wise to change from tariff to bounty assistance for our header industry. Now, thirteen months later, this request has been refused by the Minister for Industry and Commerce, Mr Lynch.

Before dealing with the reasons for this refusal, we should have a quick look at the time taken to get the answer. Thirteen months just to decide if the matter should be referred to the I.A.C.! People talk about the slowness of the mills of God but these would be racing compared to the mills of government.

We wouldn't mind the mills grinding slowly if they ground well, but in this case they didn't.

The farmers' case was well documented and showed that the 15 per cent tariff increased the cost of reaping by at least a dollar a ton of grain reaped. But the Minister didn't think much of this argument. I quote from his letter: 'Your estimate of unit savings of \$1.08 per tonne, whilst undoubtedly a useful saving, is not large relative to the various grains involved.' Well, it seems

large enough to Fred who would be lucky to average \$60 a tonne for his wheat, oats and barley when freight is deducted. A saving of 1.8 per cent is not to be sneezed at.

The saving seemed small to the Minister so the farmers were advised not to ask for a broad enquiry. Many of us wanted all kinds of farm machinery examined while others even wanted to include things like weedicides and superphosphate. But the wise ones in Canberra told us to concentrate on headers. Having done as we were told, it is pretty hard to be told that we were only looking at a saving of a dollar a tonne. It would have been a lot more if we had included the items we were persuaded to omit.

However, the main reason for the government's refusal to allow our case to be heard by the I.A.C. was that the estimated cost (\$7m) was thought to be too high a price for the taxpayers to pay. It is certainly high, but if a bounty was used instead of a tariff the cost would have been spread across the 5,334,818 individual taxpayers and the 97,898 taxpaying companies instead of the 60,000 grain growers. If the whole Australian community benefits from having an Australian header industry, is it not proper that the whole Australian community should pay for it and not the farmers who are penalized by it?

It makes us mad to be lectured by the good and great, and be urged to export to the maximum, while they persist in making our tools dearer. I know we are a bit simple but we are now getting sour.

Import Quotas (1) (January 1975)

Nowadays when Eccles comes slinking down the street people duck into doorways to avoid seeing him or being seen talking to him.

A year ago he used to fairly prance along, picking his feet up high, nodding condescendingly to people who were glad to acknowledge his acquaintance.

That was when it was fashionable for people to agree with Mr Whitlam who used to say how sensible it was to use our limited resources wisely so that the general standard of living may be increased.

But now protection is being shovelled out in the fond hope that it will create employment.

Extra protection is given to artificial fibre yarn, and this increases the costs of those who make the yarn into fabric, so these get increased protection.

This increases the cost of fabric and makes it harder for the man who makes the fabric into garments to compete with imports, so the duty on made up garments must be increased, and so the prices of clothes rise.

Then people either buy less clothes or have less money to spend on other things, so there is no gain in employment, but almost certainly a loss because you do not get good employment figures from a sick economy.

The blind panic moves to create employment by increasing duties on the part of the ungodly saddens Eccles, though it doesn't surprise him.

Long and sad experience has taught him not to expect too high a level of logic on these arid economic matters.

But he has really become distressed about the readiness of people to suggest that the imposition of import quotas will benefit the economy and increase employment.

He knows that many people who favour this facile cure are uncertain of what is meant by the term "import quotas." He took me aside to explain that the general method of preventing imports from competing with Australian production is to impose tariffs but it can also be done in another way — by simply ordering that only a certain quota of imports can come in and once the quota is filled, then no more can come in that financial year.

On the face of it, this looks like an easy solution; people imagine that, as the imported goods do not have to come in over a tariff wall, then their price will not be increased.

But in the long run import quotas are much more dangerous than tariffs. First, importers have no incentive to increase their sales because if they do they cannot import the extra goods to sell. So the price of imports settles down comfortably alongside the price of local goods.

But a greater problem emerges if the import quotas are left on for any length of time.

The quotas are almost always allocated on the basis that each importer is allowed to import a certain proportion of what he imported in the year before or in some selected base period, so the importer who has a large quota is often content with the situation.

But what about the young, hustling importer who is just starting to make his way up the business ladder? He just can't make any progress.

As with wheat quotas, import quotas tend to ossify an industry in its present situation and structure and prevent it changing to meet changing circumstances.

The third reason why import quotas are dangerous is because under the rules of the General Agreement on Tariffs and Trade (GATT) the imposition of quotas, unless absolutely necessary, is severely frowned upon.

It is fashionable to say that the rules of GATT are broken by other countries with impunity, so why should not Australia do the same?

Yet, in the long term, the arbitrary and inescapable nature of import quotas is rightly regarded as inviting retaliatory action by other countries, and if the practice becomes common, then world trade might well receive a mortal wound.

And as Australia depends more than most countries on the freest possible movement of world trade, so we will suffer more than most if a war is sparked off by import quotas.

So for these three reasons, Eccles see the general acceptance of the imposition of import quotas with grave concern. It is true they act immediately and definitely, but the damage they do is insidious and much more dangerous than most people realise. They are certainly more dangerous than tariffs.

Poor old Eccles. It looks as if he is losing another tariff battle, though he has a pathetic belief that he may live long enough to see the tariff war won in the end, as economic logic is more

widely understood. But the thought of having to fight on the import quota front as well is too much for the old sod.

Import Quotas (2) (May 1977)

Eccles is always nagging me about the danger of using import quotas as a method of protecting Australian industry.

Sometimes he calls them import quotas, sometimes quota restrictions (QRs for short), sometimes tariff quotas, sometimes even import licences. So it is not surprising that your Modest Member gets confused.

There was a time B.E. (Before Eccles) when it seemed to me that if an Australian industry was protected by quotas and not by tariffs, then whatever imports came in would not have to come in over the tariff wall and so would not be made dearer, so the consumer would not have to pay extra as he does if tariffs are used. I asked:

So why do you get in such an awful lather about QRs, Eccles?

They always seem so definite in their operation. If imports are limited by quotas to, say, 30 per cent of the market then the Australian industry knows that it has the remaining 70 per cent so can plan more definitely. And QRs don't seem to make things dearer as tariffs do. Why do you hate them so?

Eccles took a long deep breath and started in on me.

He first ridiculed the idea that if a product was imported under a quota its selling price in Australia would not be increased as it would if it had come in over a tariff wall. Eccles growled:

Surely even you can see that because an importer is only allowed to import a limited amount he would have no incentive to compete strongly with the Australian manufacturer? What would be the sense of so doing if he can't import any more goods because he is only allowed a limited import quota.

One reason why import quotas are so popular with Australian industry and with importers who have been given quotas is that everyone knows their place; there is no incentive to rock the boat, to compete.

No wonder quotas are popular with the people who either have been allotted import quotas or are protected by them.

Then Eccles explained that if imports came in over the tariff wall the Customs duty went into consolidated revenue so the taxpayer benefited even though the consumer paid an increased price.

But with import quotas the price to the consumers still rises to the Australian price for reasons given. But with quotas the difference between the Australian price and the duty-free price is a windfall gain to the importer with a quota.

Eccles says that getting a quota is like getting a licence to print a quota of money.

"If that is so, quotas must be greatly sought after. How then are they allocated?" I asked.

Eccles says that there are two grave dangers in doing this. It may be nice and comfortable for the importer with a quota but it keeps out any up and coming new importer. In other words, it offends Eccles' bucket of worms conception of the economy.

Eccles warned me yet again:

Anything that keeps things as they are, anything that inhibits change is bad for the economy in the end. Nothing is quite so offensive as a bucket of worms that stops turning.

But there was a great worry gnawing at Eccles and I too am concerned. Even since Eccles made me read Professor Hayek's *The Constitution of Liberty* I have been on my guard against particular advantage being given to particular people by administrative discretion. I quote from page 168:

Englishmen then understood better than they do today that the control of production always means the creation of privilege: that Peter is given permission to do what Paul is not allowed to do.

Even more telling is this pregnant quotation from Sir Edward Coke's examination of Magna Carta in 1624:

if a grant be made to any man, to have the sole making of cards, or the sole dealing with any other trade, that before did, or lawfully might have used that trade and consequently is against this great charter.

By giving particular people a licence to import, the government is giving a particular advantage to those people. If tariffs are used all citizens are free to engage in the trade if they pay the tariff duty, but with QRs it is only those with a quota that can trade, a quota given to them by administrative discretion and not by law.

As Coke said in 1624, it would be far better "to leave all causes to be measured by the golden and straight meter-wand of the law and not to the uncertain and crooked cord of discretion."

Dumping Duties (March 1972)

Eccles has given up trying to make me play a prominent part in the tariff band. I find that there is now considerable competition to see who can beat the lower tariff drum.

Eccles says that there was a time when hardly anybody was interested, but not now.

Exporters in general and the rural sector in particular are becoming acutely conscious of the burden they have been bearing for so long, so many more members are now taking a morbid interest in tariffs.

Eccles thinks that it won't be long before even the Country Party begins to take an interest in the subject.

But if I won't aspire to be an expert on tariffs, Eccles says I ought to try to become an authority on "dumping."

I must admit that I don't like the sound of the word, particularly in election year, but I suppose I had better try.

According to Eccles, dumping duties are imposed if imported goods are sold at unfairly low prices and so cause damage to an Australian industry.

Suppose an Australian firm is producing in competition with an overseas giant — the overseas company could lower its prices to a level underneath what it is charging at home, so that even after paying the ordinary duty it could undersell the Australian company and so put it out of business.

Having done so, it would then have no competition and could charge what it liked.

That is the argument, so Eccles says. If an overseas company is selling a product at a lower price than in the country of origin, it is generally accepted that the product is being “dumped” in Australia.

The case is then heard by the Tariff Board and if this dumped competition is thought to be adversely affecting an Australian manufacturer a dumping duty is imposed.

But in many cases the system encourages our importers to pay unnecessarily high prices for imports.

Let me give an example. The price of paper is fixed in Scandinavia by the big manufacturers; the arrangement is called the “Scanfin Convention” and it is a truly restrictive trade practice arrangement.

There is no doubt that the domestic price in Sweden is held artificially high in this way.

Now if a manufacturer in Sweden quotes paper to us at \$90 a ton instead of \$100 a ton (the price fixed by the price ring) a dumping duty of \$10 a ton would be imposed, because the price was \$10 lower than the domestic price in Sweden, ie the restrictive trade practice price.

Suppose a keen Australian merchant goes to Sweden and finds a man who is prepared to sell him paper at \$10 a ton cheaper than the current cartel price.

When they start to talk business he realises that he might as well pay \$100 a ton — it will cost him the same in the end; the dumping duty would bring it up to \$100 anyway.

And after the deal is closed, the Swedish merchant would, I hope, take the Australian to dinner to spend some of this \$10 a ton he has unexpectedly received as a gift from Australia.

It would be a pretty lavish meal I guess.

But you can imagine the poor Australian trying to puzzle out why, if restrictive trade practices are bad in Australia, we should deliberately encourage them overseas, and why it is thought good for Australia to have to pay the “fixed” price when it could be obtained for less.

This seems a queer way of helping Australia, although I can easily see how it would help the Swedes.

Export prices that are lower than domestic prices are quite common in Australia and elsewhere. It is known as “marginal pricing” when we do it.

It has some queer side-effects. Polyethylene is heavily protected in Australia.

I understand that a Hong Kong merchant can buy Australian polyethylene powder very much cheaper than can an Australian processor.

I have been told that an Australian manufacturer, say, of plastic buckets, can import buckets made in Hong Kong from the cheap Australian polyethylene powder, pay the duty on them, grind them up against into powder, and the powder would cost him less than if he bought it from the Australian manufacturer who exported the powder to Hong Kong in the first place.

I presume that he would then make the powder up into buckets again. It seems a queer way to behave.

So with these two examples before me, I really don't feel like chasing after the "dumping" hare. Mavis says that I am in enough trouble already without getting mixed up with this kind of nonsense.

By-Law Administration (October 1971)

Eccles has been grizzling away for months because I will not try to understand the operation of the 'by-law' side of tariffs. And can you blame me? Tariffs are difficult enough by themselves with their *ad valorem* and specific rates of duty, sliding scale duties, temporary duties, dumping duties, support value duties and so on. But I think I will have to edge my way into the unpleasant and difficult subject because I have just come across a rather nasty case of by-law manipulation which is an example of the by-law system not working well.

What are by-laws? Let's say there is a customs duty on a product, but for some reason this product is not being made in Australia. The Customs Department would then allow the product to be imported under by-law, either at very low rates of duty or duty free.

Again, if the dutiable product was made in Australia but supplies of the product were not available for some reason, then the imported product could be brought in under by-law.

Eccles says that the by-law system is good if well administered, but doing this is not easy. By-law entry is refused if an Australian manufacturer can justify the claim that 'a suitable equivalent product is reasonably available.' It is not easy to say which goods are 'suitably equivalent' with one another. You can be pretty certain that a wheelbarrow is no real substitute for a truck but it is not so easy to decide whether a 5-ton truck is suitably equivalent to a 7-ton truck. So there is plenty of room for disagreement about the administration of the system.

Any Australian manufacturer can claim to the Department of Customs that he is producing goods that are 'suitably equivalent' to the imported goods and if the claim is upheld, the duty must be paid.

Now let me give an illustration of abuse of the system. The only company in Australia that rolls sheet steel is Lysaghts. Sometimes this company cannot obtain supplies of B.H.P. feedstock, so they import it from Japan, and, quite properly, get by-law entry because supplies are not available from Australia.

But recently Lysaghts imported a shipment of between 20,000 and 30,000 tons of finished sheet steel under by-law without it being specifically notified in the Government Gazette. Then they proceeded to sell it at the standard Australian price, although they imported it under by-law. There was probably a very handsome profit in that little exercise.

Now there were two errors made here by the Customs department. First, they let the finished product in under by-law as though it had been the feedstock. Second, they did not specifically notify the transaction in the Gazette. Probably the officer concerned did not realize the significance of his action.

This is an example of the system being knowingly or unknowingly abused. But even without such abuse the system is dangerous.

Let's say that Australian manufacturers want to import some Japanese sheets. They are the only ones producing steel sheets in Australia, so they alone know there is an impending shortage. They alone have time and opportunity to arrange the shipments. They alone can oppose by-law entry (which they won't do if they want to import the sheets). So they alone can open the gate to import sheets under by-law and so take advantage of their monopoly manufacturing position.

Eccles has been grizzling away for years because we still maintain the duties on imported steel products. I know these duties are not high, and in some cases they are not used. But they are used in other cases as illustrated here.

So Eccles, Fred and I all feel that to prevent the abuse of monopoly position, to prevent the exploitation of consumers and to provide some competition to our iron and steel companies, we should remove the duties on iron and steel. After all, the whole iron and steel industry is no longer an infant. Or if it is, it is a pretty elephantine infant.