



## ECONOMICS MADE EASY

### Part 1

#### 3. Trade Barriers (Particular)

*Way back in 1966 I made a speech in parliament pointing out the inevitability of the mess the car industry would get into because of massive government intervention. As the years have dragged on, the mess has got worse, so the government intervenes even more. The present (1981) situation of the industry is a classic illustration of what happens when governments guide an industry.*

*The first of these articles appeared in 1971 and they follow with measured tread till 1979. The figures vary somewhat as the years go by but the mess remains, only worse.*

##### ***Motor Cars (1) (December 1971)***

I hope that Fred doesn't get to hear of the mess that our State and Federal Governments have made of the car industry. If he did, he would take my liver out, Christmas though it be.

The car industry can roughly be divided into three parts.

One part consists of four large manufacturers, GM-H, Ford, Chrysler and BLMC. These four make most of their cars from Australian components.

The second group assemble cars in Australia with varying degrees of Australian components. They have to pay high customs duties on imported parts, but they can avoid this if they guarantee to use an increasing percentage of Australian components. The Government's recent action is aimed at increasing this percentage still further.

The third group import cars fully assembled. These cars have to pay a high duty of 45 per cent.

You would think that a tariff wall of this height, with the natural protection of high ocean freights, and the effect of the sales tax on the customs duty component of the cost, would be high enough to protect any industry that was good at making cars.

The reason why governments should be blamed is that by encouraging the establishment of too many car factories, they caused the hot-house growth of the industry without apparently worrying about the inevitable increase in the price of cars or the effect of blocking the channels of trade with countries who buy our products, such as wool.

State governments must take some of the blame.

Each year our Premier goes wandering the world, beating the State drum and inviting everyone to set up factories here. The reception that he gets if he can announce a car factory is deafening.

Fred is not asked to the reception — he's usually home trying to make enough money to pay off the instalments on his last car. But if he did come, he probably wouldn't realise the effect of having far too many car manufacturers in Australia.

But it is the Commonwealth that has done most of the damage by handing out overgenerous protection.

The effect of protecting everything that moves is that we have four manufacturers of cars to supply a total of about 400,000 cars.

In the USA they only have four manufacturers for a market of 8 million cars.

Now the Government has interfered to increase yet again, the Australian made component.

The inevitable effect of this will be that the second group, the assemblers, will have two choices.

The first is to cease assembling and to go back to importing built-up cars and paying 45 per cent duty.

The second choice for them is to increase their Australian made component.

But this is only economic if enough cars of a model are made to enable the economies of scale to lower the cost of these components. And it is quite clear that an increase in the sales of a model can only take place at the expense of others already being made here.

There just isn't room at the top for them all, particularly with GM-H taking up so much room.

Many assemblers will drop off the production ladder, either intentionally or by being pushed off.

No wonder the manager of GM-H received the news with gratification.

And it plays into the hands of the militant unionists who have been twisting the tail of the big manufacturers all the year.

Now, it will be easier for them to give in to the irresponsible union demands, secure in the knowledge that their competitive position against importers and assemblers will be protected.

But the worst thing about the whole business is that it is a decision made by the Government, without the advice of the Tariff Board.

If there had been a Tariff Board inquiry, there would have been public evidence and public report and the facts would have been exposed. But now no one knows what is going on — certainly I'm not told, but I'm only a Member of Parliament.

There are great opportunities for special favours to be done for special people if things are arranged this way. This is not a good way to either govern a country or control an economy.

I am not feeling in a cheerful Christmas mood at the moment, but I suppose I will live through it.

I hope Fred doesn't learn what is going on. He is getting very tired of the Government preening itself about how much it loves him while at the same time clobbering him in this fashion.

### ***Motor Cars (2) (April 1976)***

Since 1946, when the Federal Government announced its car manufacturing plans, Eccles has been holding up our car industry as an example of the mess into which we can get if we protect an industry too lavishly.

And when the mess is measured in money terms it does indeed look awful. The tariff-induced costs on a \$5,000 car at the retail level works out at about \$1,400 a car, and the extra cost for every man employed in making cars is about \$4,000 each year.

So we are in a mess.

There was a time when Fred would only have been angry about this if he was about to buy a car, but now the poor sod knows he is not only paying the extra \$1,400 on his own car, but he and his fellow exporters are also paying out on all the cars that city slickers buy — cars that the storemen and packers, the wharfies and even members of Parliament buy.

This has made him mad. He now knows that tariff costs are paid for by exporters in the end.

Fred often gives me lectures about getting off my tail and doing something to help my poor constituents by reducing the tariff on cars.

So when the Government announced its 85 per cent car plan, he immediately asked me if it was the right decision, or whether he and his fellow exporters were going to be made to carry their present burden on their bent backs forever.

So Fred and I asked Eccles for his opinion and he, as usual, was eager to oblige. He said that the 85 per cent decision was about the best that we could hope for.

Our previous policy of lavish protecting of everything that moved had encouraged far too many manufacturers to enter the industry with the result that most processes carried out in Australia were fragmented between too many factories, so making it difficult for them to achieve what Eccles calls the economies of scale.

Then he started to give figures to prove his point. I can't remember most of them, but some stuck in my muddled mind and they burnt with smouldering rage into Fred's mind also.

We have in Australia three manufacturers for a market of approximately half a million cars, while in the US they have three manufacturers for a market of 11 million.

Further, to operate an efficient panel pressing plant you should have a throughput of 600,000 units a year.

In 1973, we pressed 420,000 units, so clearly all these should have been pressed in one plant, but we did it in five which had been encouraged to start by the previous 95 per cent plan.

So with engines. An efficient engine plant needs to make 350,000 engines a year before it achieves the economies of scale. In 1973 in Australia we made 300,000 engines so they should have been all made in one plant. But we used four.

Eccles says that the effect of this fragmentation is seen when you come to look at the productivity of labour.

In Australia, each man employed in the car industry makes, on average, 5.9 cars a year, while in the Nissan factory in Japan, each man makes 37.2 cars, and Toyota achieves 40.5.

It's true that our workmen hate making cars and so are bad at it, but Eccles says that this is not the main reason why our performance is so bad. It is mainly because the 95 per cent component plan forced this unwise proliferation of plants.

Eccles added the grim warning that if this is indeed the main cause of our mess, then curing it would inevitably mean that some of the uneconomic plants would have to close down or switch to doing something else.

Everyone knows that this is economic sense, but he is fearful that when the crunch comes and such plants actually start to close, the political pressure to stop the process will take some courage to resist.

"More courage than you've got, I'm afraid," he adds sourly.

So there it is. Eccles thinks that the Government's 85 per cent car plan does give us hope that we can gradually unmake the car mess.

Fred has promised Eccles that he will do his best to keep me up to the mark to make sure that we don't back away from the inevitable closing down of the unneeded plants when the time comes.

It is clear that without this solution nothing worthwhile would actually be achieved, and Fred and his fellow exporters would then have to carry their load till they dropped.

And Fred says that this would not be long.

### ***Motor Cars (3) (September 1977)***

Eccles has been whinging for so long about the car industry mess that even Fred has become apathetic about the size of the car burden he bears. It is a long while since he has bought a new car and, according to his banker, it will be even longer before he buys another one, although Fred says he will probably be able to buy a push bike, second-hand, for preference. Because there is no hope for him being able to buy a new car he only has a feeling of dull dislike about the cost of cars. He's got many other things about which to be angry.

But suddenly his smouldering resentment has burst into a roaring conflagration. He has heard a rumour to the effect that the government is to be asked to give the light commercial sector of the motor industry the same lavish protection that passenger cars receive.

Because commercial vehicles are not as heavily protected as are cars, they are comparatively cheap compared to cars, with the result that demand is switching from cars to commercials.

This has annoyed the car manufacturers who are now asking that commercial vehicles (including 4 wheel drives) be treated as passenger cars. Then the commercials would also have to face a 45 per cent tariff wall, they would be included in the component plans and, I presume, import quotas would be put on them also. Evidently if the commercial vehicles can be lured into the same mess as cars are in, and so made as dear as cars, then the car buyer will have no choice but to buy either dear cars or dear commercials. So the car manufacturers will benefit.

I had hoped that Fred would not get to hear of this awful rumour. I had heard it, living as I do in the corridors of power where rumours and rumours of rumours run wild through those windy passages. But I tried to keep the ugly rumour from Fred. He is a simple soul but he will go berserk if he finds out what is being planned for him. I don't think he knows now that the 4 wheel drive Toyota station wagon (at which he has been looking longingly in the agent's window and which has a list price of 89,208) has its price increased by \$1,357, made up of the 25 per cent duty plus sales tax on the duty. I have found that it is best to keep these sordid facts from Fred, working on the principle that what the heart doesn't know, the head doesn't grieve over. If he were to find out about the extra \$1,357 that the government is already ripping off him in the form of duty plus duty-increased sales tax, that would be bad enough, but if he found out that the car manufacturers want to increase this impost even more, then he would be awkward to handle indeed.

I cannot believe that at this time our government could even contemplate lumbering farmers with an increased burden of this magnitude. Most people buy 4 wheel drives because they are essential tools for the operation of their properties. Because a few odd sods from the city buy 4 wheel drives to get away from it all in the bush, Fred, who needs a 4 wheel drive vehicle to work his property, may be asked to pay, not the present \$1,357 impost, but far more.

This is going to be done, no doubt, in the name of the development of 'this great country of ours'. We are going to be asked to repeat the mistakes of the past—to encourage by unwise and lavish protection the production in Australia of 4 wheel drive vehicles. But we know that the Australian market will never be big enough to justify the production in Australia of enough vehicles for economic production. Last year we sold about 23,000 4 x 4s; to produce these economically we would need to make at least 50,000. So clearly all we would do by lavishly protecting the 4 x 4s as we do cars is not to encourage Australian production of 4 x 4s which is economically hopeless, but to prevent Fred buying cheaper 4 x 4s and so encouraging him to buy expensive cars instead.

And while this is going on—while we are putting up barrier after barrier, quota after quota, to block the channels of trade between Australia and Japan who supply most of our 4 x 4s— we will be lecturing the Japanese about their wickedness in putting barriers against their imports of our beef!

I hope the vet will put a tranquiliser into Fred if the government were to give in to the pressure from the car manufacturers. I certainly wouldn't be game to go near him.

### ***Motor Cars (4) (August 1978)***

Some months ago the Government asked the Industries Assistance Commission whether light commercial and four-wheel drive vehicles should be treated in the same way as passenger vehicles, and so pay the same high rate of duty and be subject to the same quota limitations.

Fred became almost distraught with rage when he heard this because Eccles has put a lot of time and effort into educating us about the mess the car industry is in, how unwise and lavish protection in the past has encouraged the establishment of too many manufacturing and assembly plants so that economic production of cars in Australia is impossible.

The cost of maintaining the industry in its present mess is estimated to be about \$500 million a year with most of this burden falling on us exporters.

So when Fred heard that the solution the car industry wanted was to get the light commercials and the 4WDs into the same mess as the rest of the industry so we would have no choice but to buy dear vehicles of one kind or other, he was very angry indeed and went around making thinly veiled threats about what he was going to do to his MP if this happened.

And he went further, and started a campaign to persuade all farmers to refuse to buy vehicles of any kind from Fords, the company that initiated the move for more protection.

And he was getting a great deal of support in the bush. We are getting sick of being milked.

But the Government, bless it, refused the industry request. The IAC report has not yet been made public so we cannot be certain of the reasons for the Government's action but certainly one telling factor would be the effect on unemployment of the present high levels of protection.

This is illustrated in the accompanying table prepared by Martec, the expert car consultant company, and given in sworn public evidence at the IAC hearing.

|      | New vehicle registrations | Employment in motor vehicle manufacturing | Employment in motor vehicle distribution and servicing |
|------|---------------------------|---|--|
|      | Year to Dec 31            | @ Dec 31                                  | @ Dec 31   |
| 1971 | 504,500                   | 89,200                                    | 147,300  |
| 1972 | 500,100                   | 89,100                                    | 151,400  |
| 1973 | 571,000                   | 99,200                                    | 160,600  |
| 1974 | 583,500                   | 87,600                                    | 163,800  |
| 1975 | 593,200                   | 83,200                                    | 168,500  |
| 1976 | 606,400                   | 87,800                                    | 171,300  |
| 1977 | 561,400                   | 80,309                                    | 166,200  |

The table shows two things. One is that there are twice as many people servicing cars as there are making them, which is something people often forget. But, even more important, the table shows that one way of increasing unemployment in an industry is to give it so much protection that the consequent increase in price curtails demand.

This has happened with cars; the price of cars is now so high that people do not buy so many cars as is shown in the Martec table.

The only way the Government could maintain employment in the car industry would be to pass a law compelling people to buy a certain number of cars a year. Without such compulsion, the demand for cars would continue to shrink, so production would become even more uneconomic, so protection would have to be even higher, so demand (and employment) would continue to fall.

Why people should be surprised at this is hard to understand. They surely must have heard of the law of supply and demand, and that the traditional way of limiting demand is increasing the price.

The same thing is happening in the textile, garment and footwear industries, where we have been handing out lavish protection irrespective of the effect on the cost of living.

Yet employment in the industry goes down because clothes and footwear have become so dear that people try to make their clothes and boots last longer, while others make their own.

If the Government wants to maintain employment in these industries it would have to pass a law making people buy more clothes or to stop them making them.

Fred, Eccles and I are very pleased with the Government's decision about light commercials and 4WDs. It now seems to realise that increasing protection does not always create employment in the protected industry, while it certainly discourages employment in those industries which have to pay the price for protection.

The next task will be to get this message more generally accepted in secondary industry circles.

I find that an increasing number of manufacturers are now seeing things more clearly but most of them are rather nervous about getting out on the end of the limb and saying so. But the writing is on the tariff wall.

### ***Motor Cars (5) (February 1979)***

Eccles is unattractive at any time but when he is saying "I told you so," he is unbearable.

He has been like that ever since GM-H announced its plan to build a big factory to make four-cylinder engines for export as well as for here.

Even I, in a desperate endeavour to curry favour with the good and great and so get myself posted to Mongolia so that I could find a use for my striped pants, commended this GM-H conception of a world car.

Now the whole idea is out in the open and the Government has to make up its muddled mind what to do.

It must find this desperately difficult because it knows that all its past decisions as to how the car industry should be structured have turned out to be wrong.

With this track record it is not surprising that the Government finds this new responsibility rather daunting.

The Government's record of massive and disastrous interference in the car industry began in 1965 when it conceived its 95 per cent car component plan.

This forced the industry into a straitjacket, making it use components that were too dear because the throughput of parts was not enough to enable production to be economic.

Since then the Government has altered its plans many times, each time telling the industry sternly that this was going to be the last alteration and from then on the rules would remain unaltered.

Then a few months later there would be yet another amendment, accompanied by another lecture.

The various government car component plans forced the car industry to wear hobbles so that it could never be efficient.

Eccles, in his "I told you so" mood, showed me an article he had written in 1966, pointing out that the plan would make it impossible for us to produce cheap cars.

And he has often compared our performance with that of the industry in Sweden.

There the car companies are allowed to buy their components in the best market, so that the parts that make up a Volvo come mainly from outside Sweden.

And imported cars are allowed to compete freely with the Swedish cars and indeed over half the cars sold in Sweden are imported.

But because the Swedish car industry has not been made to wear hobbles as in Australia, the Volvo company exports about 75 per cent of the cars they make, with about a third of those going to the USA and Canada.

Sweden has an efficient car industry, we have not.

But of course giving an industry this kind of freedom and the incentive to do well what comes naturally is foreign to our Australian philosophy of leaning on the Government, so we make our industry wear hobbles in the mistaken belief that we are creating employment.

But it has not worked out like that.

We have had to build ever higher the protective wall around our car industry and we now need import quotas as well as a 45 per cent tariff to protect our cars.

We have to subsidise each employee at the rate of \$4,000 a man a year but employment does not rise because cars are too dear to buy.

People even began buying light commercial vehicles instead of cars because these were not hobbled with component plans and so were cheaper.

Ford's solution to this was to try to force the light commercials into plan hobbles also, so that all vehicles would be in the same glorious mess together.

The people in the bush didn't think much of that solution.

Now GM-H have really put the cat among the pigeons.

The Government may at last have to face up to the mess it has made of the industry.

But perhaps it may back away yet again from the unpopular decision of unbuckling the industry's hobbles.

If so, the problem will remain and will have to be solved at a later date, when the mess is even worse.

The sad and simple truth is that the Government's policies have made cars too dear to buy so the problem will get steadily worse until it is tackled.

Fred says that the Government ought to admit simply and honestly that it has made a mess of things and is now prepared to scrap its silly plans and let the industry sort itself out.

So I had to explain to Fred that Governments can never bring themselves to admit that they have made mistakes, though they are always eager to tell us the mistakes made by their opponents.

But even Eccles has been known to admit that he is not altogether perfect.

I wish the Government would do likewise.

If it does, it should start with the car industry.

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*The group of textile industries has been, and is, a great problem to Australian governments. There are several reasons for this. The chief is that the textile industries are labour intensive and so are hurt by the competition from cheaper labour countries. Secondly, they are rather more decentralized than other industries and so are able to twist the arms of country Members of Parliament. Thirdly, they have been formed into a fierce fighting lobby group which is not particular about the methods used to get its way with governments. During most of 1980, an election year, they conducted a cruel campaign to scare the government to make it turn down an Industries Assistance Commission report on the textile, clothing and footwear (T.C.F.) industries. The way the government went to water on this question was a clear indication that it was much more interested in short term political advantage than in doing what was best for the country.*

### ***Textiles (1) (June 1972)***

Eccles is always nagging me about the "shuttle service."

All too frequently, when the Government accepts a Tariff Board recommendation for a reduction in duty, industry gets a hearing before what is called the Special Advisory Authority (SAA) who almost always puts a higher temporary duty back on again.

When this happens, the law requires that the matter be referred back to the Tariff Board again.

A full Tariff Board hearing takes about a year, so the temporary duty stays on until the board's report is acted on by the Government.

If it then reduces the duty, the process may start again. Eccles calls it the "shuttle service" and he hates it.

Eccles says that the worst example of the shuttle service in operation is to be seen in the generous treatment given to the synthetic fibre industry.

This industry received its first temporary protection in 1963.

Between then and now, temporary protection has been in force for 333 weeks and permanent protection for 134 weeks.

And now the matter must go back to the Tariff Board yet again, so it will be a year at least before duties are reduced again.

So the industry will have had temporary protection for 385 weeks and 134 weeks of permanent protection. I wonder what “temporary” really means!

The process of hearing cases before the SSA is evidently very informal, with manufacturers being heard in one session and importers in another, with all the hearings in private.

Eccles says I should ask if I can go, either as a member of the press or of Parliament, so that I could understand the basis on which these generous hand-outs are made.

Generous indeed they are, at least for the industry that gets them.

For an industry further along the production line, the protection may very well be devastating as its raw material costs may be increased by the increased duties.

What does the synthetic fibre industry stand to gain by this “temporary” handout?

It tells me it will be \$1.2 million. I have seen other estimates of \$10 million. Eccles and I have worked it out at \$2 million.

But whatever figure you use, it must be pleasant to get it handed out in this nice informal and friendly way, without any public exposure of the cost to the economy in general or the user industries in particular.

This would be serious enough if it were really on temporary.

But the figures show that the industry has received, or will receive, “temporary” protection for 74 per cent of the time since its first helping in June, 1963.

The money value that this section of the industry receives from permanent protection (20 per cent) works out at about \$5 million.

If you take my figure of \$2 million for the temporary duty you get an annual subsidy of about \$7 million.

Eccles is always moaning about the size of the consumer subsidy which secondary industry receives through the tariff. He says it is about \$2,000 million a year. I can see now how it is made up.

But let us continue the sorry saga. The users of the yarn pay the subsidy in the first place.

Within two days of the increased duties they were already warning the world that they, in their turn, would need extra protection.

And this is not surprising. Overseas garment manufacturers can buy their yarn for 55c a lb; the same yarn will cost an Australian 90c lb.

So the effects will spread down through the production line, through the textile trade with devastating results, and eventually the burden will have to be shouldered by Fred and his fellow exporters, as always.

Why is the industry such a burden to the economy? It claims it is an efficient producer.

It may well be, but Eccles says it makes too many qualities of yarn and there is not enough demand for even the most popular qualities to give the economies of scale that bigger overseas plants obtain.

This last excuse would be more acceptable if it were not for the fact that another producer is just about to start up.

So there will be even less throughput, even less economies of scale so more expensive support will be needed from the economy in general and the exporter in particular. Poor Fred!

The text for next week's sermon will be, "You have to come from overseas and be really big to get really big helpings." Eccles says we will deal with propylene as well as synthetic fibre yarn.

### ***Textiles (2) (August 1977)***

There's one quality above all that I envy the English and that is their ability to laugh at themselves.

A classic example of this can be seen in an article in *Punch*, April, 1975, when the fishermen of Britain acted to stop competition from imports from the European Economic Community.

It is entitled, "Quick, the Drawbridge," and the second paragraph reads:

Faced with the threat of frozen fish imports which were not only foreign, but *cheap*, these brave descendants of Drake and Nelson did the proper British thing: they organised a blockade. We may be in the Common Market, but that is no reason why foreigners should be allowed to meddle with our sovereign right to maintain inflation at the level to which we have become accustomed.

The blockade succeeded in pushing fish prices up by 50 per cent — a remarkable demonstration, you will agree, of what we in this great country can still do when we are up against it and, without doubt, the most impressive stand against the European menace since the epic struggle against French eggs.

Our rate of inflation, Mr Healey noted the other day, may soon be double that of our biggest competitors. In short, Britain leads the world!

Our rate of inflation is not the highest in the world, not now, anyway, but it is noteworthy that it is the clothing item that rises faster than the others.

Yet it is clothing and textiles that impose such a crippling burden on the export industries and on consumers generally.

And it is because we protect these industries so lavishly that our customer countries, particularly our ASEAN neighbours, feel impelled to impose barriers in the way of our exports to them.

Eccles has been locked away in his ivory tower doing some quiet measurements of the cost of protecting the clothing and textile industries.

He says that the increased cost of locally produced and imported textiles, clothing and footwear caused by the tariff and quota restrictions comes to \$800 million, made up of \$600 million for clothing, \$130 million for footwear and \$70 million for textiles used for final consumption.

This protection costs each Australian family about \$200 a year.

Eccles then started to pick other people's brains.

He said that a State by State breakdown was done of the way the different States benefit from the tariff on clothing and textile industry plus the footwear industry, footwear being another industry in continual trouble.

The benefits to each State of protecting these industries are shown in the first column in the table.

|          | <b>Benefit</b> | <b>Burden</b> | <b>Gain or Loss</b> |
|----------|----------------|---------------|---------------------|
| NSW      | \$187m         | \$198m        | -\$ 11m             |
| VIC      | \$312m         | \$151m        | +\$161m             |
| QLD      | \$ 25m         | \$ 86m        | -\$ 61m             |
| SA       | \$ 22m         | \$ 51m        | -\$ 29m             |
| WA       | \$ 7m          | \$ 47m        | -\$ 40m             |
| TAS      | \$ 8m          | \$ 16m        | -\$ 8m              |
| NT & ACT | \$ 0m          | \$ 12m        | -\$ 12m             |

The difference between the States is because some contain more factories making these goods than other States, eg Victoria, having more such factories, gains most while the NT and the ACT (the Territories), having no factories, gain nothing.

The second column, the burden, is worked out on the assumption that the people in all States use the same quantities of clothing, textiles and footwear.

It simply measures the burden.

The last column shows that Victoria gains while the other States lose, particularly Queensland.

I defended these industries on the ground that they played an important part in decentralisation, but Eccles brushed this aside.

When Eccles had exposed this rather odd picture I defended these industries on the ground that they played an important part in decentralisation, but Eccles brushed this aside.

He says that 74.5 per cent of the employees in these industries are located in Melbourne and Sydney, 84.5 per cent are located in the six State capitals and 92.5 per cent are in the six State capitals plus Newcastle, Wollongong, Geelong and Launceston.

So it is hard to justify protecting these industries on the grounds of decentralisation.

### ***Textiles (3) (June 1977)***

The IAC report on textiles, clothing and footwear was so unpopular with some people not only because it measured the cost of sustaining the industry, but even more resented was the IAC's clear recognition that even at this cost of \$800 million, the industries would continue to shrink. I quote from the report:

Even if the structural and other improvements are made, there are few activities that will not require increasing levels of assistance at continually increasing cost to the rest of the community.

The decline of large sections of the industry is not caused by bad management or by lazy workers but simply by most sections being labour intensive and our labour costs, particularly for female labour, being much higher than those of our competitors.

The gap between the wage rates will continue to widen.

Some sections of the industry, for instance those producing rugs and blankets, are competitive at low rates of duty and these sectors will remain, but most of the industry will gradually shrink.

It can only be saved in the long term without raising costs to consumers by subsidising it directly from consolidated revenue.

This would have the great advantage of everybody knowing the cost of sustaining it and it would also mean that there would be no need for prices to rise as they do if the industry is protected by tariffs and quotas.

If prices rise any further it will pay us to fly to Singapore just to buy new clothes.

So nothing but a direct subsidy can save some sections of the industry in the long term and this is where the Government action in asking the IAC to work out ways of keeping the industry in its present form for three years is so hopeless.

It can't be kept in its present form — it would be like holding down a safety valve on a pressure cooker, it could indeed be done for a while but it would have devastating results in the end.

If a subsidy to the industry is the only way to help maintain it, there is nothing to stop the Government using the same money to help wind down the industry.

But the Government has asked the IAC to fossilise the industry and this is to be done to safeguard employment.

The Government however appears indifferent to the employment in other industries that will be put at risk by so doing.

The most important, and the hardest to measure, is the employment lost because the economy is sick with inflation.

The Government is always expressing its concern about the damage done by inflation, but really inflation is only another name for rising prices and the commodity group that is rising fastest is clothing.

The Government must know that taking further action to protect the industry will make price rises inevitable.

These, because they feed back into wages, jeopardise employment in other industries.

But there are other ways in which employment will be put at risk by protecting industry by tariffs and quotas.

Recently merchants in the Philippines, encouraged by their Government, were so enraged by our actions in stopping their textiles coming in that they threatened to put barriers in the way of exports of our steel.

This created a furore in Port Kembla because of the threat to employment.

And before the recent ASEAN conference the Malaysian Minister for Trade had encouraged barriers being put in the way of imports of our butter, sugar, flour and GM-H spare parts.

It was only when the Australian Government offered \$90 million in aid that these restrictions were reluctantly removed.

So clearly employment is at risk because of the likelihood of retaliatory action and here again the export industries are the ones to suffer.

The export industries are weakened in another way.

Now that we have an exchange rate that moves in response to market forces every barrier that prevents imports coming in is an automatic barrier to exports going out.

So Fred and his fellow exporters are automatically harmed. They don't know about it, of course, but it happens just the same.

Almost everyone, even the Government, now recognises that tariffs must be lowered so that our standard of living can rise.

But tariff reductions are like parliamentary salary increases, they are usually seen as justified but not just now.

The time is never ripe, so we continue to wander aimlessly down the road to ruin, unable to make up our minds.

There has been a lot of comment lately about the British disease. Well, we've got one of our own.

## *Textiles (4) (June 1978)*

I keep having a vision, but Eccles says it is really a nightmare.

In it I am still a Member of Parliament and I, with other MPs, accompany our ruler, King Mal, to the beach where he sits on his throne stopping the tides coming in and going out. On the last occasion, his task was to stop the employment tide in the textile, clothing and footwear industry from going out.

When the announcement was made as to which tide the King was stopping this time, a whole retinue set off for the beach. Lesser back benchers had the honour of carrying the throne.

Then came the cabinet courtiers who formed a solid phalanx around his majesty, guarding him against people who might tell him things he wouldn't want to hear. Then came the grave and responsible civil servants.

They kept two paces to the rear, and wore pinstripe suits and expressions of heavy responsibility. Then came the SS brigade. At first I thought these were a security force to protect the good and great, but I was told the SS stood for "smart sods" and that they were there to make certain that other smart sods did not snitch their import quotas.

I noticed that the SS were particularly attentive to the civil servants who are the people who actually allocate the quotas. They clearly did not hold Members of Parliament in high regard and were only distantly respectful to the cabinet courtiers, but they clearly fawned on the civil servants.

And they continually expressed their gratitude for past favours, which I thought was very generous until Eccles reminded me that gratitude can be regarded as a lively sense of favours to come.

When we reached the beach we put the throne down with proper reverence and we all gathered round, with the distance from the throne being in accordance with our station in life. The cabinet courtiers were closest, then the civil servants sitting on little camp stools that the SS people had brought for them. The back benchers were next and then the SS. They weren't worried about their position in life as long as no one pinched their quotas.

Before the ceremony began, there was a performance by some of the natives of the district. There were from the ACAM (Australian Confederation of Apparel Manufacturers) tribe and they danced on the beach, and turned head over heels and that kind of thing. They made queer threatening noises and beat their breasts and their drums.

Then the ceremony got under way. First, King Mal stood on his throne and at the top of his voice shouted advice across the seas about the wicked way other countries erected barriers against our trade. I am uncertain whether there were any answers because the winds of change were blowing strongly and the breakers were booming. I thought I heard a mocking reply about our own barriers but, if this were so, the cabinet courtiers made sure the King did not hear it.

Then the King took his seat on his throne, drew his cloak of authority around him and told us how he was going to stop the ebbing tide of employment in the textile, clothing and footwear industries and that this wasn't going to be easy as some manufacturers were wickedly using labour saving machinery.

Then he asked one of the IAC staff to mark on the legs of the throne the level of employment in those industries and we were to watch the employment rise as the measures he had instituted took effect. So we settled back with quiet confidence and for a little while this seemed justified because the tide did indeed start to come in a little.

Then the water started to creep down the legs of the throne instead of up, but when the man marked this he was taken away and beheaded which is the way of emperors.

But still the employment tide sneaked out. Some of us knew that this was because the demand for clothing and footwear was falling because they cost too much, so people were making their own clothes or making do with less. But none of us were brave enough to tell the King this after what had happened to the last bearer of bad news.

But everyone noticed that the employment tide was not doing what it was told. You only had to look at the level of the legs of the throne to see that.

Then the King explained that life wasn't meant to be easy and the tide would behave properly soon. Then a very brave person brought him a message on a piece of paper. The King read it, and then announced that he had a very important engagement overseas and disappeared in a blaze of glory.

Someone found the piece of paper that had made the King so cross. It was a table showing how employment in these industries had obeyed the law of supply and demand and not the King's commands. I suppose the next thing will be to rescind the law of supply and demand.

| <i>Date</i> | <i>People employed in textiles</i> | <i>People employed in clothing, footwear</i> |
|-------------|------------------------------------|--|
| March 1973  | 53 300                             | 108 900                                      |
| March 1974  | 54 200                             | 110 200                                      |
| March 1975  | 40 300                             | 86 500                                       |
| March 1976  | 44 500                             | 92 300                                       |
| March 1977  | 38 900                             | 82 900                                       |
| March 1978  | 36 700                             | 79 700                                       |

### ***Textiles (5) (October 1979)***

There was a time when the recent publication of the IAC's draft report on textiles, clothing and footwear would have made me mad because it exposed the damage being done to my farmers.

The report spells this damage out yet again and also measures it which is a thing the industry cannot stand.

They hate everyone knowing what they are costing us. We know now we are subsidising the industry at a cost of about \$200 a year per household.

But I used to comfort myself by hoping that the damage done in this way might be offset by the employment gained as a result of the startling high rates of protection that these industries get.

Of course, Eccles has taught me that the employment gained by protecting one industry is almost always lost by the damage done to other industries.

But I couldn't help hoping that, in this case at least, there would be some increase in the direct employment in these industries to offset the inevitable loss of employment in other parts of the economy, caused by the high rate of protection.

But the startling fact is that, in spite of the imposition of these burdens on Australian families in particular, and on the economy in general, employment in these industries continues to fall.

Those who remember the piece I wrote on this subject in June last year will recall that the drop in the employment level was then exposed.

And it still continues, in spite of our expensive efforts to shelter the industry from the traumas of change.

Mr McCann, the executive director of AFCO, the organisation which bravely and competently defends the poor consumers — the group that no one else seems to care about — pointed out recently that retail clothing prices had risen by 85 per cent since June, 1974, which is faster than the rise in the cost of living, namely 74 per cent.

Yet, during the same period employment in the clothing industry had dropped from 89,400 to 69,000 now, a fall of 22 per cent.

When I saw these figures first, I could not understand them.

“How can this be?” I said to myself, “surely there must be some employment benefit to an industry we are helping so generously, to compensate for the damage done to the rest of us.”

But when you come to think of it, I suppose the reason for the fall in employment is that the high rate of protection afforded the industry has made clothes and footwear so expensive that the demand for them has fallen.

Why this should be a surprise is puzzling but we seem to have got into the way of thinking that the old law of supply and demand has been superseded by edicts from the Government.

But clearly, the law is still grinding away in its old fashioned way.

To demonstrate this I quote from a piece in the *Adelaide Advertiser* on September 11, and written, not by an economist like Eccles with a view to maintain, but by a woman fashion writer who has been watching what is happening in the clothing scene.

A recent examination of retailing at a seminar conducted by the fashion industries of Australia, found that Australians now spend only 5.2 per cent of their income on clothing and footwear, compared with 11 per cent in 1955.

Fashion experts are now convinced that most Australians are buying clothing and shoes only to replace worn out products.

They also feel that consumers with spare money prefer to spend it on holidays, with the introduction of cheap air fares, and leisure activities such as theatre-going.

So clearly the law of supply and demand is still working.

We now know that the only way to increase employment in this group of industries is to pass a law to make it compulsory for people to spend a certain amount of money on clothes and shoes.

But even the Government would hesitate taking such a step, although I guess the spokesman for the industry, Mr Aitchison, would not be so concerned.

But if you want to see the law of supply and demand really in action, come to our place on Thursdays which is Mavis' sewing day. You will find her bent over her old sewing machine, pedalling away furiously, turning sheets outside to centre or whatever women do when they want to rescue an old sheet from its inevitable doom.

She may have her mouth full of pins which will inhibit her eloquence, but when she takes them out she will tell you in no uncertain terms that she is only doing that because new sheets are too dear to buy.

And there are people all over Australia doing the same thing with sheets, kids' clothes and other garments.

So if industry leaders want to find out what is wrong with the clothing industry, come and ask Mavis.

I bet they aren't game!

\* \* \*

*The successful establishment of an iron and steel industry in Australia has often been given as an illustration of the infant industry argument to justify tariff protection. I accept that. However, that was in 1920, and yet the infant is not yet weaned. As this book goes to press, the government is considering an Industries Assistance Commission's report on Iron and Steel Products and rumour has it that the government will continue to give the B. H. P. giant continuing protection. The company has no competition within Australia and continuing the duties will hinder competition from overseas, so the users of steel will continue to be disadvantaged.*

*B.H.P. has the traditions of a great company and some of its leaders have also been leaders of Australia as well as of B. H. P. It is our tragedy that the company's present leaders still want to suck at the country's teat.*

### ***Iron and Steel (1) (December 1970)***

While all my parliamentary colleagues (and most of you other sods) have been lying around on the beach, what has the poor old Modest Member been doing? Yes, you are right. He has been swotting away at tariffs under Eccles' stern and eagle eye. I wish Eccles had never been born.

The advocates of protection are always using the infant industry argument. Namely, that though high tariffs may not be economically sensible when industries are fully developed, they are often necessary to get an industry started, to encourage people to build the factories and buy the machines and get going.

The inference is that after this period, tariff protection would not be necessary. As an illustration of the success of this argument, they always cite the iron and steel industry as the shining example.

When this industry started in Australia, it was protected by tariffs. It does not use its protection in a considerable proportion of its production because it doesn't need to — because it is good at producing its main lines. But the tariff protection still stays on. Why? Some people say that this doesn't matter if the protection isn't used. But it does. For example, the Australian industry doesn't make the kind of fencing wire that suits the new methods of electric fencing. You can't blame them for this because there is not yet a great demand for it in Australia. But because there is a duty of \$10 a ton on imported wire and because it is not available here, it has to pay the duty and costs the farmer more.

There are a great many similar examples of this. Many particular sizes of structural steel are not made here just because there is not enough demand for that particular size and shape. But duty free admission of these sizes is not allowed, so the duty has to be paid.

If we are as good at producing steel as everyone says we are, then I would think that the duties could well come off altogether. There would still be the very considerable natural protection of freight costs and the Australian industry has the great advantage of being close to its market. To lower the duty would at least let in some badly needed competition.

But there are some tariffs on iron and steel products that are well and truly used and the classic case is stainless steel. Here the duty is 35 per cent. It is here that the “infant industry” argument starts to look a bit loose. To picture the Broken Hill Proprietary Company Limited as an infant is really straining credulity a bit far.

When city people go to the Show they may see the beef classes being judged, if they are lucky. They are rightly impressed by the sleek appearance of the young bulls and they may think what wonderful converters of grass to flesh they are.

It is only when they visit the studs and see the way that these young bulls are foster-mothered that they realise they have been had. At “feeding” time the young bull gets all excited as he sees his cow approaching. You think it is love calling. She is put in the bail, and what does the bull do then? No, you are wrong, he doesn't. Down on his knees he goes to get at the udder of the poor skinny cow that is half his size, and he sucks away greedily.

Well, it's all right (perhaps) to foster-mother young calves, but it is silly (and the beef industry knows this) to foster-mother big bulls. It tends to breed the milking quality out of the real mothers. And it seems a bit silly to me to use the infant industry argument with stainless steel.

It is true that the manufacture of stainless steel is an expensive process and the company would expect to lose money during its developmental stages.

Well, Fred the farmer loses money each time he clears a new piece of scrub — he doesn't expect to be helped for that.

No farmer expects all his paddocks to be equally fertile — equally profitable. You would think that if you were as big and as profitable as the Australian iron and steel industry that you would take the rough with the smooth, particularly if you had an oil well in the back paddock.

There is an annual requirement of about 27,000 tons of stainless steel in Australia. This now costs us about \$7m extra because of the duty.

The main competition comes from the Japanese who buy our iron ore, nickel and coal, ship them to Japan, make them into stainless steel and then ship them back here again and have to climb over a 35 per cent tariff wall.

It is about time that this big bull was weaned.

### *Iron and Steel (2) (August 1976)*

In December 1970 I poked fun at the Broken Hill Proprietary Company Limited, saying that we should no longer use it as the shining and successful example of the infant industry argument to justify tariff protection. I drew a parallel between the foster-mothered beef bull down on his knees sucking greedily from a weak and skinny cow half his size, and the giant B.H.P. company still getting tariff assistance from the Australian economy. But when I wrote that article some of the comments I made were not quite fair because at that time, B.H.P. were not using the small amount of tariff protection that was available to them on the main range of their products, though they were certainly using it all on stainless steel.

But now B.H.P. is before the Industries Assistance Commission asking for tariff protection on their main products and they claim that they really need it. It is true that the requested tariff rates are low, but it is a tragic commentary on our economy that they are needed at all. I can imagine how the shades of Essington Lewis and Harold Darling must quail at the thought. People will never be able to use B.H.P. ever again to illustrate the infant industry argument.

Now that the plight of B.H.P. has been exposed for all to see we may have more public understanding of the fundamental sickness that afflicts all of us. B.H.P. is not in its present predicament because they are a lot of messers, nor mainly because they lack the spur of competition. You can find things to criticise, but who are we to throw the first stone? Any steel mill has to be big if it is to be efficient and I have never known a big show that didn't suffer from bureaucratic stiffness of the joints. I know that B.H.P. is little better than government departments in this regard, but any fair-minded person will admit that B.H.P. is a well-conceived and well-run organisation, big though it is.

Their trouble is the same as the rest of us: we are all being clobbered by an internal cost structure that is out of line with our competitors. That is why B.H.P. is asking to be treated like the foster-mothered beef bull, that's why it is asking for, and needs, tariff protection.

However, B.H.P. is asking for treatment of the symptoms of the disease, not its cause. Its fundamental problem is a high internal cost structure, yet if they are successful in obtaining the tariff protection for which they ask, they will have an immediate effect on increasing the cost structure of the company still more. A tariff-induced rise in steel products will quickly get built into a rise in the price of cars, wire, fencing droppers and then into wages and so back along the line until it comes to the exporter who can pass the price rises no further. And in a few year's time B.H.P. will come before us again and ask for another subsidy from the exporting sector of the economy because their cost rises will have been increased because of the tariffs that they themselves received. It is pathetic seeing a company as big and efficient as B.H.P. down on its knees before us, asking for more of the same treatment that made it and us sick. Surely a company with such fine traditions, with such a large stake in the country, can think of some other solution, one that won't make it and us sicker!

B.H.P.'s problems centre on the high cost of labour, the high cost of industrial strife, the dreadful load of coastal shipping freight rates and port handling charges and so on. I do not pretend that these are inconsiderable burdens, indeed they are not, but they are the very burdens that are breaking the backs of the rest of us. If B.H.P. gets relief by an increase in tariff protection, this may suit them in the short-term, but it would be fatal for them and us in the long-term.

My city readers find my rural illustrations rather primitive, but they are real to me. I started this article by comparing B.H.P. to a big beef bull being foster-mothered on a little cow. But there is another somewhat similar comparison. City people may not believe this, but sometimes (not often) cows suck themselves. This is an unprofitable business for the dairy farmer, because he gets nothing out of the cow. And, strangely enough, it is also bad for the cow who milks herself weak and skinny in the end. Well, if B.H.P. gets the tariff protection for which she asks, it will do the same!

### ***Iron and Steel (3) (April 1979)***

Eccles recently paid one of his rare visits to Fred's farm and he has been behaving in a queer way. He usually demands to see Fred's account books as soon as he gets out of the car, but on this occasion he took no interest in Fred's financial well-being. Instead, as soon as he had polished off a plate of Mrs Fred's scones with jam and cream (he has a queer human streak in him) he got a little mat out of his case, went outside, faced his mat and himself towards the east and sternly invoked the aid of Allah.

This unusual behaviour upset Fred's dog who had never seen anything like this before. So he (the dog) started howling to keep Eccles company. So Fred rang to ask me to come over quickly in case he (Eccles) became violent.

When I arrived, Eccles was explaining the reasons for his strange behaviour. And every now and again he would reverently pat a report of the Industries Assistance Commission (I.A.C.), which he evidently regarded as something handed down from Mount Sinai. I couldn't help remarking that this would be a lot quicker than sending it by post. Fred winked at me and I knew we had to humour Eccles and hear what was on his mind or else he would get to work on his mat again. So we sat back and listened.

Eccles says that the draft report on Iron and Steel Products just published by the I.A.C. is a most significant document. The tariff protection that B.H.P. now receives is low, much lower than is usual for Australian protected industry. But the I.A.C. recommendation is for these low tariffs to be still further lowered and that B.H.P. be assisted instead by a set of subsidies of various kinds which are designed to encourage the company to be more export orientated.

Eccles then gave us a long lecture about how this recommendation was in line with the government's frequently expressed view that all industries would do better for themselves as well as Australia if they were to be more outward looking. And when Eccles explained it, we could see that, if B.H.P. went bald headed for exports, then the company would get the extra through-put that would justify the installation of the most modern and sophisticated labour saving saving equipment and so be able to get its costs down even further.

B.H.P. has been, is now and no doubt will continue to be a considerable exporter if things are left as they are. But the I.A.C. says that it is not enough for B.H.P. to be content to only export when the opportunity offers, the company should do its planning and investment with the clear

objective of getting into the export market, boots and all. By so doing, it would not only help Australia by improving our balance of trade and by supply other industries with cheaper steel, but it would also help the company.

There were many figures and tables in the report, the most interesting fact for me was that B.H.P. had lost far more than it had gained from the past policies of protection. The I.A.C. estimated that, for B.H.P., the cost of protection outweighs the benefits by approximately \$150 million a year. I have always thought that B.H.P. got clobbered by the tariff in the same way as we farmers do, but I had not realised that it suffered to that extent.

Eccles is desperately anxious that B.H.P. accept the challenge posed by the draft report. If the company goes to the final hearing determined to go back to the old ways of being helped, then he despaired that Australia would ever develop as the country should. And we have been told over and over again that we must be more outward looking if we are to have a more vital and vibrant economy, instead of battenning on one another as we do now. B.H.P. is such a respected and powerful organisation; that it refuses to pick up the challenge means we have an awful sinking feeling that lesser companies will never do so and we will continue as a second class country forever.

So Fred and I can see now why Eccles was so busy on his prayer mat. After talking it over we decided to join him there. But we made our supplications to the shades of Essington Lewis and other giants of B.H.P.'s proud past. I don't think they would have backed away from the challenge posed by the I.A.C. Report. And we hope and pray that today's leaders of B.H.P. will not let Australia down either.

### ***Shipbuilding (1) (July 1972)***

Why are we so bad at building ships? We produce steel at world prices and our men are supposed to be as good as any. But the subsidized shipyards, even after they have received a subsidy of  $33\frac{1}{3}$  per cent, are still far from competitive with other countries. They need, in addition, the protection of import prohibition to prevent overseas ships underselling them. And they are often not even competitive with the unsubsidized section of the Australian industry which builds smaller ships.

The subsidy cost taxpayers \$18m in 1969-70, yet total funds employed in the subsidized section of the industry are only \$20m. In other words, in years such as this, the taxpayer pays just about enough subsidy to equip the subsidized (or 'recognized') yards each year. Or, if related to the labour employed, the subsidy is equivalent to taxpayers paying about \$2,800 p.a. for each man in the industry. But even this isn't enough; the protection of import prohibition is required in addition to the subsidy.

And the extra price caused by this import prohibition and paid by the Australian shipowner has a serious effect on coastal shipping freight rates. The Tariff Board estimates that the increased costs for an Australian tanker, even after receiving the subsidy, increases coastal freight rates by as much as 25 per cent. This adds to inflation and penalizes isolated areas, particularly Tasmania.

The unsubsidized (or 'unrecognized') section of the Australian industry does far better. I quote from the Tariff Board's Report on Shipbuilding of 1972:

. . . a comparison of the value added in Australia for some of the largest ships produced before 1970 with equivalent activities on almost identical ships built overseas, shows that local costs have been between three and four times greater than the overseas costs. This compares with the results achieved by some unsubsidized Australian yards which have, without benefit of subsidy, won contracts against bids on a subsidized basis by Recognized yards and have also developed a significant export market in small ships. These results indicate that some of the Unrecognized yards are much more competitive in world market terms.

The usual excuse for our poor performance is that our labour costs are much higher than those of our competitors. This is nonsense. The Japanese buy our iron ore and our coal, ship them to Japan, turn them into steel and then into ships and in the process pay a wage rate corresponding at least to that of the United Kingdom and then can easily undersell us.

And what about the Swedes? Again I quote from the Tariff Board Report:

... The Board notes that Sweden is a major producer of ships for world markets. Compared with Australia, Swedish shipyards pay higher wage rates, are part of a smaller domestic economy, have no substantial cost advantages in major raw materials and machinery and enjoy less Government assistance than the Board proposes for Australian yards.

What is wrong with us?

One of the reasons is industrial strife. It is not only the disputes with management; more serious are the disputes between the various unions in the same yard. The Japanese usually have only one union in each yard whereas we have between fifteen and twenty, all jealously watching one another, each determined that their particular little empire remain inviolate. And the generous protection for the industry encourages industrial disputes as all know that extra costs can be passed on. Similarly, union problems (as well as increased ship costs) add to shipping freights; and lack of effective competition between shipowners help these costs proliferate.

Another cause of our troubles is that we build too many classes of ships. If we concentrated on building particular types instead of trying to build each and every type we would do far better. There are always advantages in building a run of anything, be it cars, ships or dresses.

The lesson is that if you provide a feather bed for an industry it will lie heavily upon it. The shipbuilding industry has done this in the past. I hope it is going to do better in the future. I'd also like to see some genuine competition in coastal shipping to improve efficiency and keep down freights. But with the government's rejection of the Tariff Board's recommendation to allow the importation of second-hand ships, this seems unlikely.

### ***Shipbuilding (2) (September 1976)***

One of the arguments that has been put forward to justify the taxpayer paying an annual subsidy of \$13,000 for every man employed in shipbuilding runs somewhat like this:

The industry certainly costs the taxpayer a lot but we should not ignore the side benefits that follow creating shipbuilding employment in this way.

Shipbuilders are likely to have a family of five, so benefits of the employment are spread through the economy.

And then there is the employment gained in the components industry. And the Commonwealth gains in income tax collected from all of these groups.

So we must not be too narrow-minded and think only of the \$13,000 subsidy per person employed. There are other side benefits and these outweigh, by far, the piddling little amount of money involved, about \$50m.

I have drawn a parallel between shipbuilding and the wheat industry to see if I can demonstrate the fallacy of this argument. I have constructed what Eccles would call a model of the wheat industry designed so that we employ the maximum number of people.

My plan is splendid in its stark simplicity — I simply pass a law which states that any farmer who grows wheat using horses instead of tractors gets a subsidy of \$13,000 a year.

You can see that there would be an immediate stimulus to employment because all farmers would have to employ more people if they wanted the subsidy. And the extra farm hands would need houses, so employment would be gained there. And the horses would need harness, creating more employment there.

And all these extra people would pay income tax, so the government would gain on every count.

And there would be an immediate improvement in the economic health of the small country towns which would start to blossom again because of the extra number of people working in the bush.

And more country schools would open up and we would be able to demand better roads and so on.

Indeed, the more I thought about my plan, the more desirable did it seem. I mentioned it to Fred's brother, Bill, because he owns one of the few draught horse stallions left in the land.

He thought it was a statesman's solution and he promised me massive support from the other draught horse breeders.

I could see that the willing co-operation of the stallion would have a very important part to play in the plan, so I asked Bill to give the matter deeper thought:

Don't forget that you can lead a horse to water but ... well, you know what I mean, Bill. It would be a great pity if my whole splendid idea was to fail just because we couldn't get your horse to co-operate.

See if you can find out what he thinks about the idea and I'll see you next week.

When I saw Bill a week later he told me that he had put the question fully and frankly to the horse and had given him two days to think about his reply because he (the horse) is rather slow witted.

In due course Bill says that the horse thought my idea was basically sound and that he would do his duty, but added the rider (you would expect a horse to do that) to the effect that he hoped that "in this day and age" (he was a very well bred horse) there would be none of the old fashioned nonsense of a horse having to plod around from farm to farm on his feet. Bill swears he said:

See if your man will arrange to have me carried around in an air conditioned float pulled by a tractor. Then I'll get my own back with *that* lot.

For the benefit of my city readers I must explain that, when we farmed with horses, most farms did not keep a stallion but our mares were got in foal by a stallion led “on a round” from farm to farm by a groom.

It was this walking which was evidently worrying Bill’s horse. He (the horse) seemed to think that he would have enough to do without that.

Bill strongly supported him on this, and I must admit that the request seemed reasonable, particularly as the horse was not exactly youthful, though I cannot tell his age because I have forgotten how to read a horse’s mouth.

Now I am the first to admit that the success of my scheme rests rather too heavily on the performance of Bill’s horse, because clearly we couldn’t create much employment unless we had a lot of horses.

But even apart from this criticism of my plan, Fred says the whole idea is stupid anyway.

Perhaps it is, but no more stupid than paying \$13,000 per man just to keep him in shipbuilding employment.

At least my plan would have considerable side benefits for Bill’s horse.

### ***Engines (December 1978)***

When Eccles pushed me unwillingly into the tariff battle many years ago, most people, including my parliamentary colleagues, thought that I had some kind of disease.

They used to go around muttering darkly that I “was a little Australian who did not believe in the development of this great country of ours” and that kind of abuse.

Now, however, most people, or most thinking people, know that the old policy of protecting everything that moves imposes impossible burdens on other parts of the economy, so tariffs must come down in the long run.

The Vernon Committee said this first, then the Jackson Committee and finally the White Paper on manufacturing industry agreed.

So nearly all thinking people now agree with Eccles’ general thesis that we would be better off with a lower tariff structure.

There are a few economic troglodytes who cling pathetically to the shibboleths of the past, but you usually find that they adopt that attitude because they hope to gain something for their particular group at the expense of the rest of us.

But fortunately there are not many of these people left now. It becomes increasingly difficult to proclaim these primitive areas as the higher level of education exposes their pitiful logic.

But there is considerable difference between admitting that tariffs must eventually come down and actually lowering them.

David Trebeck, of the Australian Woolgrowers and Graziers' Council, summed up the situation when he said, somewhat sourly when the Jackson Committee report was published, that everyone seemed in favour of tariff reductions as long as they did not actually happen.

I had this feeling of frustration when Eccles told me that the Government was considering delaying the reduction in the high level of protection for small industrial engines of the kind that farmers use, and which make engines very dear, indeed.

The ancient mariner had an albatross hung around his neck until it went rotten, but the Australian farmer has had a stationary engine instead of an albatross hung around his neck for so long that it stinks.

In May last year the Industries Assistance Commission (IAC) recommended that the then high level of duty be gradually reduced over the years.

The rate was to come down from 49 per cent to 45 per cent in November, 1978, to 40 per cent in 1979 and 35 per cent in 1980.

But now, acting on the principle that tariff reductions are a good thing as long as they do not actually happen, the Government has referred these engines to the IAC again.

The high duties on engines clobber farmers, but no one worries much about us. It also clobbers the companies who use these dear engines in equipment they make.

For instance, Howard Rotovator Ltd make and used to export their well known rotary cultivators, but now they find that the high prices they have to pay for their engines and other components are making their rotovators too dear.

The following is a list of the Customs duties imposed on their inputs:

|                    |               |
|--------------------|---------------|
| Fasteners          | 30 per cent   |
| Engines            | 49 per cent   |
| Bearings           | 28 per cent   |
| Transmission parts | 22.5 per cent |
| Springs            | 44 per cent   |
| Chain              | 26 per cent   |

The components having been made so dear by these rates of duty, the company says it will have to cease production of some of its lines and expects the demand for others to continue to shrink. It knows, all too well, that the demand for this kind of machinery is very elastic, and quickly falls if prices of machinery rise.

I now quote from sworn evidence given by Howards at the IAC inquiry: "It is not unnatural that the farming community should direct their criticism of protection of manufacturing industry at the Australian farm machinery manufacturer, who is easily identified with their own experience.

"In reality, the problem lies one step further back in the input-output chain.

"It is the high protection of many of our inputs which increases our input costs and which is ultimately reflected in the higher prices for our products and higher costs to farmers."

As I said at the beginning, most thinking people know that tariffs must come down in the long term. Even our high protectionist Government now agrees. But it seems determined to see that these reductions do not actually happen.

### *Electrical Appliances (February 1974)*

Eccles says that the recently published Tariff Board report on Domestic Appliances (fridges, washing machines, dish washers) discloses an almost classic example of what happens when an industry is over-protected for too long.

High protection has operated in the industry since 1939 and encouraged too many manufacturers to start operations. Overseas, they estimate that a company has to produce about 500,000 white goods (the generic term for refrigerators, clothes and dishwashing machines) to get economic production.

Because of the fragmentation of the Australian industry encouraged by high protection, the biggest manufacturer in Australia has a throughput of 160,000 units a year.

The Australian market is big enough at 1.1 million units to support at least two factories making 500,000 units each.

If the industry was structured in this way it would be possible to economically introduce more labour-saving methods.

And the high protection has stayed on for too long without being reviewed. Too many industries were given high protection in the 1930s. Naturally, they did not ask for their case to be reviewed lest their protection be reduced.

The Tariff Board used to ask for these to be referred to them because it was obvious that the high and apparently permanent protection was lulling some industries into complacency and easy living.

Eventually in 1971 the Government accepted the need for automatic review of long standing high protection and this report is a result of this review.

Eccles and I hope there will be many more.

Another reason the industry is in its present mess is the activities of State governments. Our State Premier goes overseas fairly regularly, seeking to induce overseas capitalists to invest in our State.

We usually get a pang by pang description of his valiant efforts on our behalf in London, Tokyo and New York. When he comes down the aircraft steps on his return, he proudly proclaims that by his eloquence and dedication he has induced yet another industry to set up in our State.

He doesn't mention that sometimes this is done by selling it water at below cost or reducing land tax or giving it some other concession for which the rest of the community has to pay.

And in due course, after a proper gestation period, there is an opening ceremony at the new factory. And the Premier makes an eloquent address, taking all the credit for everything and the result is that we are frequently lumbered with yet another factory to produce goods which

can be sold only if sheltered by a high tariff wall, and for which the consumer will have to pay extra for years and years.

We are only now becoming aware of the extra costs which these procedures have imposed. The subsidy available to this industry works out at about \$90 million a year, and to every person employed in the industry we would be asked to pay a subsidy of about \$3,000 a year. It is estimated that the new duties will reduce the consumer subsidy by about \$55 million.

We farmers remember the scathing comments that are heard when our subsidies are ventilated but here is a public exposure of yet another consumer subsidy paid for by exporters in the end.

But, thank heavens, now it is becoming accepted that these lavish and uneconomic subsidies are a serious burden for the economy to bear and will have to be scaled down.

It is often claimed that high protection is needed in Australia because our wages are higher than in overseas countries. But in the USA, which is an important competitor, wages are higher than ours and the wages plus fringe benefits in Japan are close to ours.

The Tariff Board comments: “However, the real disability of Australian manufacturers in regard to labour is not the cost per hour but the extravagant use of labour — by comparison with their overseas competitors — which results from fragmented and dispersed production.”

So I hope the industry won't sit around licking its wounds but will face up to the restructuring to which the Tariff Board refers. We certainly couldn't afford to go on as we were.