



A MODEST FARMER

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Should facts stand in the way of a good story?

Do you remember the story about Ginger who was asked, when he joined the army in the first war, “which arm of service do you prefer?”

Ginger considered this important question for some time and asked to go in the infantry.

When asked why, he replied: “One day the trumpet will sound the retreat and then I don’t want to be hindered by any plurry horse.”

I was reminded of Ginger’s reaction that he didn’t want to be hindered by any plurry horse by the Prime Minister’s reaction during the election campaign when he seemed determined not to be hindered by a few facts when he was castigating the Labor Party for their 25 per cent tariff cut.

He must surely have known that he was talking economic nonsense.

When Labor made the tariff cut in July, 1973, the economy was badly over-stressed with serious over-employment and the first startling increases in inflation had just appeared with the then record 3.3 per cent CPI increase for the previous quarter.

So something had to be done to dampen down the inflationary fires and we, the Opposition, would have been rightly very critical if nothing was done.

The question was what?

At that time exports were booming, particularly minerals.

The dead hand of the Labor Government had not yet been felt and we had the large amounts of money brought in by these exports sloshing around in the economy.

The currency was obviously undervalued and the position was made worse because capital (overseas) came crowding in so the speculators could make a killing when the inevitable revaluation occurred.

Something clearly had to be done.

There were two main options open to the Government.

They could appreciate the currency even more than they already had done in December, 1972.

Doing so would have had the effect of discouraging exports and encouraging imports.

The other choice was to make a cut in tariffs which would have the effect only of encouraging imports without reducing exports.

Eccles used to admit that even he was uncertain as to how he would have acted in that situation, though with the wisdom that comes from hindsight, I think he would now claim that he favoured exchange revaluation rather than tariff cuts, but at that time the choice was far from easy.

The Government decided to have a bit each way. They imposed the tariff cut in July and in September they appreciated the currency by a further 5 per cent.

This had been preceded by the bigger appreciation of 7.05 per cent in December, 1972.

But it is nonsense for Mr Fraser to claim as he does that the tariff cut caused the unemployment that began to rear its ugly head about six months later.

The necessary exchange rate revaluations had far more effect than the tariff cut.

I quote Professor Gruen:

The 20 per cent plus revaluation of the Australian dollar between December, 1972, and September, 1974, has had typically three times as much effect on the profitability of the major tariff affected industries as the 25 per cent tariff cut.

If the Government is not supposed to affect industry profitability through across the board tariff cuts why should it be allowed to affect it far more severely in an equally arbitrary fashion through changes in the exchange rate?

But far more important even than the effect of the exchange rate was the effect of the wage explosion that hit the fan shortly after this.

The responsibility for the devastating wage increases can certainly be laid at the Labor Government's door, but it was the wage increases and not the tariff cuts that got us into our mess.

I again quote Prof Gruen:

The effect of the tariff cut on the profitability of knitting mills is estimated to be equal to wage rises of between 6 per cent and 13 per cent.

Yet between December, 1972, and September, 1974, the actual increases in minimal wage rates in the textiles clothing and footwear industries averaged 60 per cent (56 per cent for males and 73 per cent for females).

So it is nonsense for the Prime Minister to go on as he does about the damage done by the 25 per cent tariff cuts.

And if the Prime Minister doesn't know that he is talking economic nonsense that is bad, but not as bad as knowing it and still saying it.

But, like Ginger, when Mr Fraser hears the election trumpet sounding he doesn't feel himself hindered by a few facts.