



## TOUGH TRADE TALK IS CHEAP

Trade Minister Simon Crean, like any Trade Minister worth their salt, is good at delivering his lines about open markets, export opportunities and the scourge of protectionism. On June 1 he was out in force, releasing a report from the Centre for International Economics (CIE) on the benefits of trade liberalisation.

The findings of the report should be unsurprising for anyone with a rough grasp of economics or an awareness of recent Australian and world history. In the late 1960s, Australia had one of the most highly protected domestic economies in the world. Throughout the 1970s, 80s and 90s successive Australian Governments unilaterally reduced our barriers to trade with the world in a (generally) bi-partisan manner.

To give credit where it is due, it was the Whitlam Government which began this process, in perhaps the best, and only, example of sensible economic management from an otherwise economically irresponsible government. This period of trade liberalisation culminated in a series of bilateral trade agreements with major trading partners under the Howard Government, including with the United States. Australia can now boast amongst the lowest barriers to trade in the world.

The CIE report shows that as a direct result of this process of liberalisation, Australians benefit from a GDP between 2.5 and 3.5 per cent higher than it would have been under higher protectionism. Australian families are at least \$2,700 and up to \$3,900 better off per year thanks to the benefits of more open trade. In addition, as a result of the shift towards more productive jobs and specialisation prompted by open trade, the average yearly wage in manufacturing is approximately \$3,000 higher per year.

The report concludes that the reduction in barriers to trade "in the long run has left almost everyone much better off" and that with other associated economic reforms has led to "lower unemployment, low inflation, rising incomes, higher levels of wealth and greater stability."

Simon Crean appropriately trumpeted the results of this report, arguing it "shows how trade improves the living standards and welfare of our community" and that "Australia needs to remain engaged with the world - not retreat from it - in the face of the global recession." But what prompted this flurry of pro-trade pronouncements from the Federal Government?

Old fashioned sabre rattling from a union movement stuck in the past. The ACTU's Congress, to be held in Brisbane in the first week in June, is likely to feature a bevy of protectionist speeches, policy debates and public pronouncements. Crean knows this as a former head of the ACTU. Fears of a recession have whipped up old union bogies about foreign trade and the 'threat' to local jobs. Reports on May 29 surfaced of an underground union push for 'Buy Australian' policies for government procurement, apparently rebuffed by Finance Minister Lindsay Tanner.

These policies hit Australian workers and taxpayers with a double whammy: preferencing local producers at any cost over foreign imports inevitably means higher costs as internationally competitive firms are locked out of the process and wastes taxpayer dollars; and xenophobic rhetoric and policies invites a backlash from Australia's trading partners, potentially costing Australian jobs.

Unions will also bizarrely push for no more free trade agreements until the global financial crisis is over.

It's as if they missed the history class that showed the consequences of the disastrous Smoot-Hawley Tariff Act in the United States which prolonged the Depression and crippled world trade. The best thing the Australian Government could do during a financial crisis is to sign more free trade agreements, winning additional export opportunities for Australian companies and cheaper and more diverse imports for Australian consumers.

Heather Ridout, head of the Australian Industry Group, had it right on May 31 when she described the union movement as "so retro". It's as if the union movement hasn't moved beyond their isolationist politics of previous decades and still thinks that an Australia with walls up is viable in the 21st century.

It's likely that the push from the union movement for higher trade barriers and preferment from the Australian Government in contracting will continue to be publicly rejected by Crean, Tanner and other Rudd ministers. But don't make the mistake thinking that protectionists will be going home empty-handed.

Crean's grandstanding comes in the wake of a little-noticed Productivity Commission report entitled the "Trade and Assistance Review." It chronicles the rise in corporate welfare with huge handouts of taxpayers hard earned cash passed out to protect inefficient and uncompetitive Australian firms. As I've acknowledged before, previous Governments are not without blemish on this front, but the Rudd Government is set to take industry handouts to new heights.

As the report notes, "since November 2007, the Australian Government has announced substantial new spending with potential implications for assistance to Australian industry....around \$20 billion is associated with traditional forms of assistance to industry...most of this amount relates to support for business R&D, exports, agricultural and related activities and the motor vehicle and parts industry."

This includes the 'Green Car Innovation Fund' which funnels billions of taxpayer dollars to major car manufacturers to supply consumers with cars they already build, often overseas, and which consumers have been already purchasing without government assistance.

So whilst Rudd Ministers may wax lyrical about the perils of protectionism and extol the benefits of open and free international trade, the Rudd Government is providing record levels of under the radar protection to domestic firms via increased subsidies and industry assistance.

The deleterious economic effects from these policies are just as significant as tariffs. Taxpayers are taxed unnecessarily to prop up politically favoured industries, Australia's trading partners are more reluctant to open their domestic markets to Australian exports and Australians employed in inefficient subsidised industries are only delayed the pain of the inevitable transition to more efficient business practises and products.

Tough talk on free trade is cheap. Real action to open Australian economy to world trade can be politically tough but hugely economically rewarding.

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