

28 December 1999

Submission to

General Tariff Review Inquiry

Productivity Commission

PO Box 80 Belconnen ACT 2616

Economic Rationalism is a lazy philosophy. The easy way is the only way.

This does not mean the Economic Rationalists sit around doing nothing. They work hard, at two things: filling their time with easy jobs and organising that they do not have to do hard jobs.

This Inquiry is a typical example.

Protectionists advocate protection as a means of protecting the jobs of Australian workers. The tariffs being considered in this Inquiry do not serve that purpose.

Free Traders oppose tariffs.

A non-Economic Rationalist Treasurer could have dealt with the whole matter in a half hour, preceded by a few days data collection by his staff. But that would involve him making a decision, which comes into the hard work category.

Instead, a whole team of Economic Rationalists will be kept busy for months, after which, the Treasurer and advisers can take at least another three months concluding the issue.

And the conclusion? Fairly obvious.

Instead of contributing to this world shattering decision-making process, I will address some details of procedure and workmanship.

Computer modeling

It is safe to guess that econometric computer modeling will **be** a major tool in the Commission's decision-making process.

Every time that computer modeling results are quoted in the Report, they should be preceded by a statement of fact: "The following is a projection, not a prediction".

Reports have a Definitions section at the beginning, so a definition of "Projection (computer model)" should be included. A suitable definition would be: "What might happen if the economics of the real world matched the economic philosophies of the programmers who developed the model."

Computers - Fouling your own nest.

Try to avoid statements like the self-contradiction: "Existing economic models cannot capture the full benefits of tariff reductions because they only measure the *static gains*." (My Italics) (Report 58, p328)

If it was possible to have such a thing as a stationary movement, it would be a damnation of the model and its programmers for limiting themselves to it.

Computer accuracy

Many mathematical calculations can be continued to an infinite number of "significant" digits. Similarly, a calculation designed to evaluate next year, with facility to roll on to the year after, can go on forever. Even if the programmers lack the wit to set limits, someone in the Commission should.

Projections to the second decimal of a percent more than ten years into the future are unreasonable.

Omissions are better than lies

Report 58, section 4.3.2 is an example of the Commission's practice of twisting the facts to fit their philosophy.

Common sense and pre-Economic Rationalist economic theory agree that tariff reductions are unlikely to bring benefit to consumers and will probably make products more expensive in real terms. The Commission's Inquiry confirmed that the car industry followed common sense prediction. Section 4.3.2 Prices and Affordability contains facts showing that consumers are financially disadvantaged following tariff reductions and no *facts* to the contrary.

Yet the Commission's conclusion was: "Nevertheless, the inescapable conclusion is that retail prices of imported cars would be significantly greater if tariffs had not declined to the level they are today."

One can understand the problem for the Commission to report that tariff reductions had been bad for consumers, Australian industry and Australia's international trade balance. The present Review deals with petty changes. The Commission does not need to tell us that the results will be wondrous.

Ignore the subject.

APEC and the WTO

When the policy of unilateral removal of protection was in its early years, the government would tie together references to freeing of trade and our obligations under GATT. They may have never said that one was to meet our obligations under the other, but the juxtaposing was very strong. In time, a few journalists began to point out that there was absolutely no connection. Our actions went far beyond the obligations and GATT contained safety clauses to protect economies from excessively adverse effects of freeing of trade.

APEC was created by Keating to give a new credibility to these policies. What Australia had already decided was offered as our obligation under APEC.

The reality today is:

No other member of APEC is committed to any change of protection that could benefit Australia.

Australia's obligations under WTO still bear no relationship to our plans and Australia does not invoke any of the safety clauses, despite having suffered economic harm that could justify applying the clauses.

The policy of the Commission is that Australia's decisions should not be influenced by the actions or inaction of other nations.

It would be nice to supplement that with a statement of fact, that Australia is the only active member of APEC and our policies exceed our obligations under WTO.

Internationally competitive

In the Terms of Reference to the present Review, 2 (b), the regular term "internationally competitive" is used.

In 1984, the Commission stated that economic efficiency was the only efficiency that mattered to manufacturing industry. It defined it as being the ability to be internationally competitive with little or no government assistance. At the time, that was a tautology. Elimination of dependence on government assistance was the only way for industry to become efficient and competitive.

We got rid of that bibfull of drivel years ago. Today, those industries that survive do so on government assistance. There are no export-oriented industries, only industries dependent on export subsidies. Every manufactured export is so heavily subsidised with foreign cost subsidies that Australia loses on the export sale.

Yet the average, ignorant citizen still believes that "internationally competitive" means not dependent on government handouts. They have no concept that an extra billion dollars in exports really means several hundred million dollars worsening of our balance of trade deficit.

There is no such thing as international competition. Clever Countries protect their home, wealth producing industries and laugh at those who do not.

Here is an opportunity for the Commission to make a real contribution to debate on Australia's economic future.

Reject the term "internationally competitive". Declare that you will never use it except to counter and ridicule the use of it by others. Suggest that everyone follow your example.

Starting with Mr Kemp.

Yours sincerely

(signature)

From Mr D Hampshire
Victoria