AUSTRALIAN TRADE POLICY: COMMENT AND QUESTION*

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I have a threefold purpose:—

Firstly: to repeat and review briefly some of the things I have been saying in the last few months about Australian trade policy.

Secondly: to bring to light three or four of the more important questions or issues which arise in the course of a generalised statement of Australian trade policy. To comment in this way may give rise to rather unbalanced digressions: I believe the risk worth taking.

Thirdly: flowing readily enough from these two will come a plea for more public debate on policy issues. No less important will be a correlative plea for more work to be done by economists (using the Adam Smith concept of political economist) on the many important variables in the debate, about which more needs to be known.

I cannot possibly exhaust the subject; hence I propose to review two fields only—both very broad—within the framework set by this threefold purpose. In what I might call "Trade Policy: Part A" I will sketch one side of the interrelation between internal economic objectives and trade policy. Part B will dance—very lightly albeit clumsily too—over what I have been describing as five areas of export policy. The incompleteness of the survey will readily be evident. For example, I will not be saying anything systematically or in detail about import licensing, tariff policy, or the prospects for exports—all vital ingredients in a trade policy for Australia.

Trade Policy: Part A—Relations between Economic Objectives and Trade Policy

Trade policy grows out of, and is, a reflection of the country's major domestic economic objectives.

There is a wide agreement on these objectives:

(i) rapid development of resources (primary and secondary) as a means of:

(ii) sustaining rapid population growth (including immigration); and

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(iii) providing full employment and rising living standards.

The great driving force—and the key to understanding trade policy—is development. Development includes population growth at about 2¼% per annum and commensurate growth in investment, production and employment opportunities.

It is not very difficult—use of an ordinary balance of payments table is sufficient—to show that at any given point of time now or in the reasonably near future in Australia, substantial imports are necessary for full and efficient employment of resources. It is not any more difficult to show—given the state of reserves, rate of capital inflow, net obligations for "invisibles"—that this makes a continued high level of export earnings necessary. The simple fact is that we are never likely to be completely self-sufficient in resources. Moreover, even if self-sufficiency seemed physically feasible, economically it wouldn't be worth it in peace times and not even in war if we have the choice.

At any point of time, we can say pretty clearly what we need in the way of export earnings and net capital inflow to meet, without reducing reserves, the cost of imports and invisibles—at this moment a little over £1,000m.—under present import licensing conditions. We are about £100m. short of this objective at present rates for all the variables. Thus the basis for short-term policy—e.g. level of import licensing—is fairly well established.

What is more difficult, however, is to frame longer term trade policy on a dynamic basis of projecting forward the likely trends in import requirements, capital inflow and export needs. Items which are more or less constant in the short run—e.g., terms of trade and volume of exports—vary disconcertingly over any period longer than a year. In my own thinking and speaking and Government advising, I have laid great stress on the need for more, not fewer, imports as the country's economy grows and on the consequential need for more exports.

Certainly, the history of developing countries elsewhere—Britain, Japan, Canada, United States—justifies the application of this view to Australia. A vigorous trade policy indeed is required to meet the requirements of this conclusion. Even if no increase in imports beyond the present controlled level of £800m. were required for some years, trade policy would still have to be vigorous to hold the necessary export market opportunities to finance these imports. To limit horizons to this level has to me appeared not only too negative but also too dangerous for the future of this country. Yet the field of economic literature here is more speculative than confidently certain.

It is easy enough to construct models—and perhaps there is not much alternative—but these are no better than the assumptions made in constructing them. How are the propensities to import (average and marginal) affected by economic growth? Does "import saving" operate in net aggregate sense—to reduce total imports as total national product expands—or only in respect of individual commodities? Will the terms of trade move for or against us? Can we offset declining (i.e., adverse) terms by rising productivity in the export industries (i.e., the so-called "factoral" terms of trade)? These are difficult questions to answer. Despite the excellent beginnings made by Lundberg and Hill,[1] Meade,[2] Corden,[3] Saxon[4] and others—both in theory and arithmetic—there remains much to be done if long-term trade policy is to rest on firmer foundations.

Certain conclusions have been accepted in my own thinking, thus:—

(a) Import prices are unlikely to fall while export prices are almost certain to fluctuate pretty widely and sometimes violently. In short, the terms of trade will not be stable and we would be unwise to count on lengthy boom periods for export earnings.[5]

(b) The fluctuating character in the volume of Australian exports remains—although droughts seem, perhaps because of more diversified farming and control of the rabbit, to be less catastrophic than in the past. But the 1957-58 wheat crop was a nasty reminder.

(c) "Import saving" operates but its net aggregate effect does not equal the increase in aggregate import requirements to be associated with the recent rates of growth in population ($2\frac{1}{4}\%$) and in the economy (about 5%).

(d) The character of Australia's exports (dominated by primary products) and of her imports (dominated by the needs of industry, agriculture, transport and commerce as distinct from finished consumer goods) suggests strongly the wisdom of accepting as applicable to Australia the "Haberler" Committee conclusion (para. 144): "There is an inherent tendency for the import requirements of the non-industrial countries to grow more rapidly than world trade has grown in past years." (Unfortunately, too, this fact as applied to South-East Asia also has serious implications for Australia's future. But more of this later.)

(e) Out of these conclusions has come, too, an uneasy and rather unwilling acceptance of the view that some structural imbalance in our external economic situation may be longer term than we could wish. In short, all the evidence supports the Lundberg-Hill argument and makes very important, indeed, a number of supplementary questions which are also independent questions in their own right. These include

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[1] Lundberg and Hill, "Balance of Payments Problems," *The Economic Record* (May 1956).

[2] J. E. Meade, "The Price Mechanism and the Australian Balance of Payments," *The Economic Record* (November 1956).

[3] W. M. Corden, "Import Restrictions and Tariffs: A New Look at Australian Policy," *The Economic Record* (December 1958).

[4] E. A. Saxon, "The Role of Rural Industries in Providing for Future Australian Requirements," *Quarterly Review of Agricultural Economics* (April 1958).

[5] The "Haberler" Report ("Trends in International Trade" by G.A.T.T. Panel of Experts, 1958) says:—

"It would be unwise to count on any substantial contribution from improved terms of trade as a means of financing the import requirements of the primary producing under-developed countries."

(In this context Australia qualifies!)

whether import licensing ought to be replaced by tariffs or a variable exchange rate; whether net capital inflow (happily large just now) will for long offset the difficulties in the way of expanding exports (i.e., before it demands its slice of the export cake), and finally, whether moderating the pace of our development (e.g., by cutting the immigration rate) would really reduce the magnitude of our future import bill.

Altogether, I am still prepared to cry—not in the wilderness, I hope—"beware, we need more exports because we need more imports." True, I could be persuaded to modify the call if oil in large quantities were found: this would certainly shift the average propensity to import curve in the right direction—it might not alter the slope so long as growth continued, perhaps at a more rapid rate. Again, I do not rule out the possibility that net aggregate import saving might—e.g., in continuous annual ½% doses—reduce the ratio of imports to G.N.P. A calculation has been done for me on this basis: it shows that in a twelve-year period commencing with 1957-58 if we assumed G.N.P. rising at 5% per annum, the import/G.N.P. ratio starting at 17% (unrestricted imports assumed) and dropping by ½% per annum, the increase in imports required would be about £125m. or 14% as against, say, about 25% increase in population or 70% assumed rise in G.N.P.

You can, of course, do your own arithmetic. You can assume imports per capita remain constant or increase a little rather much as Saxon does; you can say with Gutman[6]—not less than 2%, not more than 5%. Meanwhile, the Department of Trade continues to upset your calculations by curbing the growth of imports—while unhappily noting the pressures against the ceiling as well as other doubtful virtues of the system as related to the Australian cost structure.

On the total issue—"do we need more imports and therefore more exports?"—my stand is clear. But I could wish for far more work on this, preferably outside of Departmental circles to ensure a better check than now exists for our own thinking.

Before turning to Part B of this exercise—Areas of Export Policy—a brief word is required on the question: "If more exports are required where will they come from?" If they are not available and saleable, then our developmental ambitions must either be cut or be predicated on a more deliberate attempt to produce aggregate net import saving—even at the risk of passing an increased cost burden on to those export industries still managing to provide the credits needed for very essential imports and the "invisibles." My answer to the question is surely a reasonable enough one: we do have the resources to increase export availability from both primary production (including minerals) and manufacturing industries. But there is no simple rule of thumb; no single demand curve covering all our exports. Elasticities of demand—both for price and income—are important; but they vary for our markets in Europe from what they may be in Asia. The obstructions to trade also vary in significance from commodity to commodity and

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[6] G. O. Gutman, "Rural Exports and the Economy," *Quarterly Review of Agricultural Economics* (April 1958).

from market to market. There is no escape from a study of significant factors—the "for" and "against" approach of old Bureau of Agricultural Economics studies—for each type of export and for each actual or potential market. It is important to understand the general factors at work but to understand, too, their variable application. All told I see more profit now in turning to some discussion of the general factors which constitute the ingredients of current export policy; these have more significance for agricultural produce very largely because agricultural, pastoral and mineral produce provide the bulk of exports.

Trade Policy: Part B—Areas of Export Policy

Allow me to remind you that trade policy, rather willy-nilly in some respects, is made up of import, export and investment policies, with shipping a large and rather unwelcome representative of the "invisibles" of the debit kind. These policies are interconnected. Thus, import policy covers the tariff and import licensing. These in turn affect the climate for overseas as well as domestic investment. All raise vexed questions about which the administrator and policy advisers—and, more important, their political masters in Cabinet and Parliament—must form conclusions in order to frame policies designed to serve the generally accepted economic objectives. I say again, in passing now, reserving the right to emphasise it again at the conclusion of this address: there is great need for discussion and sound research on these matters—especially in the universities.

But let me turn now to export policy and some of the problems we meet. I have no doubt that my remarks will have a rather pathological touch or air about them. This is natural since policymakers are almost only called into play to deal with problems. Yet an over-concentration on these will not, I hope, blind any of us to the remarkable achievement that has indeed been Australia's in the last decade of extraordinary development. One value at least about pathology—it is a good antidote to complacency about the future arising from achievement in the past.

I have said I would review what I have been saying to audiences—bankers, farmers and other less homogeneous groups—in the last twelve months. I have in particular been talking about five areas of export policy. They are:

1. Level of economic activity in countries with which we trade: the gospel of interdependence.
2. Rules of the trading game: the gospel of "fair trade."
3. Moderating excessive price fluctuations: the gospel of stabilising world commodity trade.
4. Have goods to offer—efficiently produced: the gospel of exploiting our comparative advantages.
5. Go out and sell: the gospel of promotion by publicity, trade missions and trade treaties.

I propose to avoid repeating my 1958 speeches on these. Instead, I intend to pose a few questions related to currently accepted lines of policy—questions designed to provoke interest and challenge to "political economists" at large. I have another reason for being brief on these five matters: it is to allow me to present what I now regard as the most serious international question (short of, but not unrelated to war, hot or cold), of our time: the economic future of the under-developed countries of the world. The subject probably belongs to *area 1,* but it will be treated separately as a sixth area.

Area 1: Interdependence.

There can be no doubt that the level of economic activity in the advanced countries is of great significance for the export trade of developing countries like Australia. Even more important is the capacity of these countries to continue expansion and to avoid anything excessive in the way of a trade cycle. A pause in growth, let alone recession, affects the prospect for export earnings. The United States is regarded as the key point. It may be, but it is time we studied some new situations occurring. Europe, United Kingdom and Japan are functioning independently, at least for short periods. Recovery in U.S. is not a guarantee of recovery in the markets of direct concern to us. An important field of study is open here. Hardly less important for us is economic growth in the under-developed countries. I will discuss this later. Meanwhile, I admit my belief that, whatever difficulties successful growth in S.E. Asia will give Australian trade and industries, these problems are nothing to the difficulties—both political and economic—confronting us if Asia does *not* develop.

Area 2: Fair Trade.

If ever there were a field for the economic pathologist it is the lack of fair trade rules for basic commodity trading! I have quoted two conclusions of the "Haberler" report which confirm the view of the Australian Government that the trade game is stacked against primary exporters. This stacking can be regarded as inherent in Engel's law and the industrial nature of import requirements of developing countries. On top of this, however, come the burdens of excessive agricultural and mineral protectionism, export subsidies and surplus disposals to which we are now to add the doubtful benefits of the European Common Market. All these operate more heavily against the trade of primary producing countries than against the interests of advanced industrial countries. This is not a prejudiced view. I again quote the Haberler Report (para. 62): "We think that there is some substance in the feeling of disquiet among primary producing countries that the present rules and conventions about commercial policies are relatively unfavourable to them." Well might Sir Dennis Robertson plead for more effective control by "Lord Justice Comparative Advantage."[7]

Now, I am not taking time to demonstrate its truth. Let us assume it is right. What then? Do we stay in G.A.T.T. trying patiently to moderate the excesses of protectionism? (The Haberler Committee shows that moderate reductions would help tremendously.) Or do we try a dose of freedom, trying by discriminatory tariff and import licensing action against those who offend our "fair trade" concepts to enforce greater recognition of our interests. Freedom to act may not

[7] See paper in Hague (Ed.): *Stability and Progress in the World Economy.* In same volume see also comments by Viner *et al.* on this plea.

give the results we hope for. So far the weight of advantage has been with remaining in G.A.T.T. Yet I haven't seen one good published article which is completely objective in the statement and answer to the question. Here is scope for analysis by the statistician, the economist and the political scientist. I think it is the "political economist" who can best tie the issues together. We take these issues seriously inside the Public Service: can we interest anyone outside?

Area 3: Stability.

We are currently embarked on fresh efforts to moderate commodity price fluctuations through international agreements. I believe they can help, but there is plenty of published material to guide and warn us. At best, they are no substitute for high and rising levels of economic activity everywhere. But at worst, if they give to primary products some of the price stability that characterises manufactures, they will contribute to more stable economic policies in many countries.

Area 4: Have Goods to Offer—Efficiently Produced.

Here the field is wide open for the agricultural economist to illustrate how comparative advantage operates, frustrations and all. He can elucidate the principles which should operate in farm production decisions. In doing so he will be making a direct contribution to an effective trade policy.

Again, the Government, through the Trade Department, is driving hard to develop exports of manufactured goods. Have we any comparative advantage? Will the addition to import requirements for growing secondary industry necessarily exceed the capacity of industry to add to export earnings? We believe that economies of scale are appearing as manufacturers develop New Zealand, Pacific and Asian markets. Our policy belief is that there is net advantage in driving for exports in terms of the balance of payments. Even if there were not there would be good reason—given the objectives of rapid development, population growth, etc.—to develop secondary industries. Yet there remains great scope for more published work on these matters.

Area 5: Promotion.

I will not give you a discourse on trade promotion in the ordinary sense of the term: selling through publicity, Trade Missions and Trade Commissioners. Such activities are important and helpful, but difficult to assess in any precise terms.

Hardly less important is trade promotion through trade treaties designed to protect and expand market opportunities. In this regard, the Japanese Treaty has been of great significance for the beneficial effect so far must outweigh the cost—despite the public outcry which greeted it and, fortunately, quickly died away. The policy of looking for trade treaty opportunities is a settled one and the revision of Ottawa has given us the room for negotiating preference margins. The policy is clear, even though the negotiating task is hard!

A question of very great importance comes under this heading as well as any other: is it wise to stimulate investment in Australia by overseas capital? The answer surely lies in its character and in the nature of the contribution made to both external economic stability and internal objectives of growth.

The Problem of the Under-developed Areas

I now direct your attention to what is certainly looming as a major aspect of trade policy (and foreign policy, too)—the efforts of under-developed countries to develop. This is an area of study in which Australia—so close to under-developed areas—is leaving too much of the thinking to be done by Americans and Europeans. It is easy enough to visualise, in an amorphous way, the characteristics of under-developed countries: large and rapidly growing populations, shockingly low incomes by Western standards, the frequently unstable political and administrative systems, and, in all, a desire to do in a few years what the West managed in two centuries.

Still amorphously, we can picture the great political dangers if the aspirations of these peoples are not met. We can see the play the Communists can make of the great divergence in income standards and of the possibility that the divergence is growing, not lessening. We can see more than good-humoured implications in the situation behind the remark of a Burmese economist, H. Mynit, that it would be a "crowning point of irony if some backward countries were to turn towards communism through an excessive fondness of the American and British ways of life.[8] This could be the "demonstration" effect with a vengeance.

Let me leave this spectre in the background—but not too far out of mind. *There are immediate and direct economic reasons for concern.* Thus India wants to buy our wheat commercially but convinces us that economic necessity drives her to accept free wheat if she can get it from North America. Ceylon and Indonesia prefer our flour but must, for lack of foreign exchange, turn to America or take cheaper subsidised flour from France, Germany and Italy to husband scarce foreign currency resources. All South-East Asia would be interested in our manufactures if we could offer more liberal credit.

All these instances merely point up the great need for success in building up these economies to a position in which they can pay their way through trade. It is no comfort to know that if these countries had no balance of payments difficulties we would sell more foodstuffs and manufactures. Our need is theirs; i.e., economic growth which permits the rising trade associated with development. Hence the seriousness of the position in which their imports exceed their exports—a position in which high imports cannot continue unless some other factor intervenes to make it possible.

There is a growing belief that this intervening "other factor" is a *deus ex machina* in the form of more massive capital and trade aid, than hitherto available. Whether one reads Myrdal, Liebenstein, Nurkse,

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[8] Quoted by J. Belshaw: Social and Economic Revolution for the Development of Backward Countries. (Inaugural Lecture, New England University, 1958.)

United Nations Reports, Viner or a host of others,[9] one is left in very little doubt that there is:

(a) A "vicious circle of poverty."

(b) An appalling population problem made temporarily worse by the low-cost health aids which have reduced mortality rates without as yet affecting birth rates—a problem so bad that "savings are eaten up by demographic investments necessary to maintain the population at the same standards of living."[10] In *Alice in Wonderland* terms, Red Queen speaking: "They have to run as fast as they can in order to stay where they are."

(c) A need to break through the problem by enlarging somehow the ratio of capital formation to national income. In Liebenstein's terms: "The 'critical minimum effort' required must be assessed and provided. This effort may be capital formation at say 10% to 12% of national product as against 5% to 7% now."[11]

(d) A high probability that the break through can't come without external aid—probably well beyond the present levels of Colombo Plan and other technical aid schemes.

(e) A certainty that merely making financial capital aid available is only a small part of the problem of developing resources.[12]

I do not need to spell all this out: I could only quote others. The need for wholesale planning and upsetting of century-old ways of production in these countries, if practical use is to be made of external capital aid, is sometimes as unpalatable domestically to these countries as externally to overseas taxpayers and investors whose aid is sought. Yet the situation must be faced in the mutual interests of advanced and less advanced countries alike. I do not know whether the real need is one or two per cent. or more or less of Western incomes to be transferred by credits or grant—to enable the "critical minimum effort" to be made. I am satisfied that we need, in The Free World, to work on this in collaboration with those whose problems press so heavily. Just as the task is apparently beyond the unaided resources of the under-developed areas it is foolish to think that external aid is a magic wand. The economic, political and social reshaping of the economies

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[9] Myrdal: *An International Economy.*
Nurkse: *Problems of Capital Formation in Underdeveloped Countries.*
Liebenstein: *Economic Backwardness and Economic Growth.*
Viner: In *"Stability and Progress," op. cit.*
U.N.: *Measures for the Economic Development of Underdeveloped Countries.*

[10] Dholakia, cited in *International Affairs* (October 1956), p. 490.

[11] See Nurkse, U.N. Reports and other analyses. Nurkse (*op. cit.*, p. 77) says: ". . . 2% of the United States national income would be equal to about 7% of the combined national income of all low-income countries outside the Soviet orbit, and would probably be as much as or more than these countries could at present effectively absorb from abroad for investment purposes." This is possibly about the same or less than the United Nations estimate of need at about 10 billion dollars annually. Actual external "investment" seems to run at about 1½ billion dollars and not evenly distributed at that. (It has not been possible to check the comparability of these estimates and no precise use of them is intended in this address.)

[12] This to me is the outstanding achievement of Nurkse's little book.

necessary is finally the major task of the countries—people and governments—themselves.

Not trade policy, you say? I believe it is, both directly and indirectly. Whether we like it or not, Australia's own hopes and aspirations are certain to be affected by what happens in Asia.

Conclusion

I promised you a ramble with digressions—these must have seemed in one or two instances "excursions and alarms." This is not my feeling. It is rather one of belief that Australian trade policy has good and promising elements in it. The premises are on the whole reasonably demonstrated. Yet there are question marks? And it is with the significance of these question marks for this audience that I finish.

Policy judgments in Australia—as anywhere—are a compound outcome of prejudice, ill-founded beliefs and genuine efforts to be well informed in advance of the judgments as well as of the events themselves. The questions I have raised tonight are all pertinent. All are capable of professional treatment—some are receiving it. Yet too few are receiving either the public or private discussion and examination they require. It could well be that we are making the task ahead for trade policy more difficult than the real order of magnitude of future import requirements justifies. I have a notion that if we could be shown this conclusively both the agricultural economist and the administrator would heave a sigh of relief. Meanwhile, however, my best judgment is that we cannot safely gamble on import saving or finding oil as a certain way of containing the quest for imports and exports in the present orders of magnitude.

Again, in the areas of export policies, there are great issues of wide importance. I have stressed some of these and one of them in particular—the future economic course of under-developed areas. Unless these issues are the subject of earnest and careful study we may act on insufficient premises: guessing is not a good basis for policy making. I invite you all to give thought to the need within universities, factories, businesses and Government Departments, for more study of these problems to be made. The future well-being of Australia and the needs of wise government represent sufficient justification for taking the matter seriously.