THE AUSTRALIAN POLICY OF TARIFF PROTECTION AND PRIMARY INDUSTRY

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I

The Australian policy of tariff protection has traditionally been mainly directed towards stimulating manufacturing rather than primary industry.

When tariff protection was first advocated in Victoria, by David Syme in the eighteen sixties, it was meant to support manufacturers and mechanics. Syme referred to " the arts and manufactures of highly civilized nations ", making a comparison with industrialized England. As is well known, the purpose of the tariff was to create work for the surplus labour from the goldfields. Many of the ex-diggers were skilled artisans and Syme argued that it was undesirable to " . . . abandon the knowledge and the practice of those great industrial arts, which have constituted and still constitute the sole groundwork of (England's) characteristic pre-eminence in trade, commerce and wealth . . . ".

While Victoria adopted a policy of protecting manufacturing industry, the rest of Australia, with some exceptions, kept on pursuing a free trade policy until after Federation. The first Commonwealth tariff was in the nature of a compromise tariff. However the tariff passed in 1908 was decidedly protective and marks the turning point in Australian trade policy. By 1908, in other words, the policy of trade protection had been accepted by all political parties in Australia. The aim, as earlier in Victoria, was mainly protection of manufacturing industry. In this respect it is significant that Labour was won over to a protectionist policy by means of " The New Protection " which was meant to assure the worker of a fair share in the protected manufacturer's profits. That manufacturing industry was the main concern was again evident in the reports of the Inter-State Commission during the first World War. The important 1921 Tariff was meant to consolidate secondary industry established during that War.

The so-called Brigden Report, in 1929, made it abundantly clear that its authors regarded the protection of manufacturing industry, rather than primary industry, as the main function of Australian tariff policy. Their justification of the Tariff bears this out. They put forward three main arguments in favour of the Australian policy of tariff protection, all based on the encouragement of manufacturing industry relative to primary industry. In the first place, they argued, the tariff had avoided primary production under diminishing returns. In their view, without the tariff, primary production would have been pushed too far in the direction of diminishing returns instead of in the direction of manufacturing where such diminishing returns did not apply. There might have been some reduction in income per head, they said, due to pressure upon inferior or less accessible land. In the second place they believed that the tariff had prevented a deterioration in the terms of trade. They thought that by preventing undue expansion in the field of primary industry the tariff had also avoided undue pressure on the world prices of Australian primary export products. Thirdly, and perhaps most importantly, the authors of the Brigden Report believed that the tariff had redistributed income from primary producing land owners to workers in manufacturing industry, thereby maintaining the standard of living of increasing numbers of such workers.

The three arguments in favour of tariff protection thus outlined may be regarded as representing the basic traditional Australian case for tariff protection and have always influenced thinking on tariff matters in Australia. This is evident, for example, from Tariff Board reports and statements in Parliament. They have supported in Australia the case for protecting manufacturing rather than primary industry and it is therefore important to look at each of these arguments in some detail.

First of all, then, what can we say about the " diminishing returns argument ". To my mind, this argument has to be rejected, at least in the way it was presented, which was within a static theoretical framework. Brigden, in 1925,[1] had argued that under free trade people would have been forced into primary industry, because there would not have been a manufacturing industry of sufficient size to take care of the growing population. This would have involved the cost of having to produce under diminishing returns and would, according to Brigden, have resulted in a lower real national income per head. Benham,[1] in 1926, refuted this argument but it was still implied in the Brigden Report in 1929. Basically, the argument is the same as Graham's[2] criticism of the comparative cost doctrine where he argues that it is to a country's disadvantage if it is forced, by the comparative cost situation, to specialize in production under increasing instead of decreasing cost. The answer to this question is, I believe, that if investors have sufficient knowledge and if competition is free, there is no reason to assume that, under free trade, they would have pushed investment in primary industry so far that their marginal returns would have been lower than those obtainable in manufacturing. It should be noted however, that this rejection of the argument is based on its own static assumptions and that no account is taken of possible growth effects of the tariff to which we shall return later.

We may next comment briefly on the " terms of trade argument " in favour of the Australian tariff. Both Brigden, in 1925, and the Brigden Report, in 1929, had stressed that the greater supply of Australian primary export products, particularly wheat, would have meant a lowering of world prices, to Australia's disadvantage.

The present writer does not regard the " terms of trade argument " as having been a convincing argument with respect to Australia's tariff policy in the past. This in spite of the fact that this argument is traditionally perhaps the most elaborately discussed in the literature on tariff theory. Australian tariff policy has been a long run one which has already operated for many years. The " terms of trade argument " rests on the existence of inflexibilities in the demand for Australian export products. Such inflexibilities, even if they exist in the short run, must be largely discounted over the long period. A greater supply of Australian primary export products, gradually built up over many years, would have given rise to a considerable amount of adjustment in supply elsewhere and

1. See J. B. Brigden, " The Australian Tariff and the Standard of Living ", *The Economic Record*, November, 1925. To this article F. C. Benham wrote a Reply in *The Economic Record*, May 1926.
2. F. P. Graham, " Some Aspects of Protection Further Considered ", *The Quarterly Journal of Economics*, Vol. 37, 1923, pp. 199 ff.

need not, therefore, in the long run, have exercised a great influence on the world price.[3]

In rejecting the " terms of trade argument " as the basis for practical policy the present writer is in agreement with most economists today. For example, Kindleberger[4] is of the opinion that, although the terms of trade may be changed by commercial policies in the short run, changes which are due to inflexibility of demand seem to be on the whole short-lived. With respect to economic development, he said: " The concentration of attention on the terms of trade is wrong. It emphasizes the wrong variables ".

This leaves us with the third—and perhaps most important—argument traditionally put forward in favour of protection in Australia. This third argument for the tariff claims that protection has made possible a maintenance of the standard of living of increasing numbers of factory workers by means of a redistribution of income from land owners to workers in secondary industry. Formal proof of such a redistribution of income can be constructed only on the basis of a number of highly abstract assumptions. Elsewhere I have dealt elaborately and critically with these assumptions[5] and shown that some of them are sufficiently at variance with real conditions to cast serious doubt on the effect of protection in raising real wages. In Australian circumstances, within the scope of traditional theory, it is not impossible that Capital has profited from the tariff instead of Labour.

More serious, perhaps, than the fact that existing tariff theory provides no definite proof, is the fact that it works on static assumptions including given techniques, knowledge and population. Here again, we must remember the long run nature of the Australian tariff. In the long run redistribution of income can no longer be seen as accruing between unchanging and given income groups. People, in the long run, move from one group into another. In the long run, therefore, and in a growing economy initial redistribution effects of a tariff lose much of their importance. What may be relevant is that the tariff may cause different growth rates in different sectors of the economy, a problem to which we shall return later. Meanwhile, we must observe that, as a practical argument in favour of a long run policy of tariff protection, the " redistribution of income argument " is by no means convincing.

We have now had a look at the three most important arguments traditionally put forward in favour of tariff protection, i.e., the " diminishing returns argument ", the " terms of trade argument " and the " redistribution of income argument ", and we have found that none of these arguments appeal in the Australian circumstances. At the same time, these three arguments all suggested the desirability of stimulating manufacturing rather than primary industry, a policy, therefore, for which we have—so far—found no valid theoretical support.

II

In view of the expressed aim of stimulating manufacturing rather than primary industry, even at the expense of the latter, it is at first sight somewhat difficult to understand the lack of protest over the years on

3. This reasoning refers to the long period of tariff protection in the past. It may not perhaps apply in the immediate future for such primary products as wheat when there is a considerable amount of protection in the rest of the world.

4. Charles P. Kindleberger, *The Terms of Trade, A European Case Study*, p. 303 and p. 312.

5. A. J. Reitsma, *Trade Protection in Australia*, University of Queensland Press, 1960, Chapter V.

the part of primary producers against Australia's tariff policy. A reason sometimes put forward is that in the field of party politics the Country Party has had to compromise on the policy of protection in order to secure unity of the non-labour elements in the electorate and in Parliament. Although in the twenties there was some measure of protest against the tariff and some organizing to secure its reduction[6] primary producers have never taken up a free trade attitude as a political body.

Further light is perhaps thrown on the matter of primary producer attitudes by some more recent observations made by Sir John Crawford[7]. " Clear and complete statements in agricultural policy ", said Crawford, " have not been a marked characteristic of any political party in Australia. Political platforms, as printed and uttered, are prone to mix policy *ends* and *means* with cheerful abandon. This is partly because the farmer electorates are not homogeneous, one with another. Each electorate is apt to be interested in a particular commodity and the courses of action proposed for it, rather than in the total or comprehensive role of agriculture in the community. Even welfare concepts—such as equality between the living standards of farm and urban families—are translated into the price of butter or wheat ". To Crawford's observation could perhaps be added that some rural industries e.g. tobacco, cotton, peanuts and other oilseeds, which to date have been in the comparatively high cost group, are definitely anti-free trade. They are in the same position as manufacturing industries operating behind a tariff wall. It should be recognized that primary industry consists of a group of industries whose trade policy interests taken individually are widely divergent. Under such circumstances it would not be possible to obtain a united farmers' political party if such a party were to adopt as a platform a policy of free trade. Crawford mentioned another good reason why completeness in the statement of policy objectives is not frequent. He pointed out that the division of constitutional powers is such that State policies are likely to be couched in terms of different objectives from those of Commonwealth parties, He said: " Commonwealth policies have developed largely through export activities while State policies are more closely related to the farm unit itself, particularly the problems of production ".

Although organized protestations against Australian tariff policy on the part of primary producers have been absent, this does not mean that primary industries have lost sight of their own interests. Rather than fight the political reality of an avowed policy of protection they have successfully pressed the claim, over the years, that protection, in one form or another, should be extended to various forms of primary production. Although in many cases simple tariff protection could be of little assistance, an elaborate system of bounties and home price support schemes has been built up over the years to aid primary producers. In 1924 proposals for an appropriation of customs revenue for the purpose of assisting the handling and marketing abroad of Australian primary products took legislative form and several Acts were passed to assist the chief primary industries other than wool. Meanwhile tariff and other forms of protection had already assured the home market for a great many agricultural products including sugar, butter, dried fruits, eggs, tinned meat and timber.

With respect to the protection of production for export the authors of

6. Compare R. C. Mills, " The Tariff Board of Australia ", *The Economic Record*, May 1927, p. 56.
7. J. G. Crawford, *Australian Agricultural Policy*, The Joseph Fisher Lecture in Commerce, University of Adelaide, 1952.

the 1929 Brigden Report complained about the absence of a defined policy. They declared that there was an urgent need for such a policy in view of the fact that protection for export is practically limitless in its scope, being limited only by the world's consumption. "There has been no general principle" stated the Report on page 86, "in the giving of such protection, or in imposing limits on it. Sugar protection was a by-product of 'White Australia', dried fruit protection of ill-advised soldier settlement for which Governments were partly responsible. Butter has obtained its protection for exports because factory production made it possible for the industry to control prices and obtain a subsidy from consumers under the shelter of the tariff. But it is clearly unreasonable that butter should be able to get a subsidy for exports, because it is easy to control and direct the output . . . Principles are urgently needed both for the licensing or granting of such protection and for its limitation."

In the same way as it attempted to do so for manufacturing industry, the Brigden Committee also tried to estimate the "excess cost" of protecting primary production. It estimated that out of a total excess cost of tariff protection of £A36m. only £A26m. was concerned with manufactures and £A10m. with primary products, including £A4m. for sugar and £A3m. for butter. In addition, it was estimated that other assistance to primary production (loss on railways, roads, soldier settlements, research, irrigation, etc.) amounted to £A12m. Thus it was suggested that while subsidies to manufactures amounted to £A26m., the community subsidized primary production nearly as much (to the tune of £A22m.). Although the present writer does not believe that the cost of protection should be measured in the way this was done by the Brigden Committee, the order of magnitude of their calculations with regard to manufacturing and primary industry is perhaps of some significance.

III

The tariff on Australian manufacturing industry has come in for a good deal of discussion over the years. Attempts have been made to assess the variations in the tariff level and also to assess the policy of tariff protection in quantitative terms. Much less seems to be known about the extent of primary industry protection in Australia. Perhaps this is not surprising. As we saw, thinking on a broad policy basis has mainly been in terms of protection of factories rather than primary production. Also, in Australia, as elsewhere, protection of primary industry has taken many forms besides tariff protection. As far as home produced not-exported primary products are concerned, there is a tariff on a great many products of wide variety. However, there are also regulations which prohibit imports. Although it is difficult to estimate their protective effect one cannot but feel that the existing quarantine regulations, applying as they do to numerous primary products, must be of considerable importance in this respect. In addition, there is the possibility of a differential sales tax, i.e. the fact that sometimes a sales tax is placed upon the imported commodity which is not charged on the home grown product. We may take as an example the poultry industry. With respect to canned poultry, we find that this product has been given a considerable amount of tariff protection. In addition, we find that poultry of Australian origin is exempt from sales tax whereas imports are taxable at the rate of $12\frac{1}{2}\%$. Finally, there is the fact that all imports of fresh, smoked or frozen poultry are prohibited under quarantine regulations from all countries except New Zealand.

If we confine ourselves to tariff protection, and if we look at the long list of tariffs on primary products for the Australian market, we cannot escape the impression that the Australian community has been willing to grant protection on nearly all such products when protection has been asked for. We find that tariffs are placed on poultry, game and soups, on dairy products as well as substitutes thereof, on vegetable fats and oils and oilseeds, on eggs, sugar, grains, potatoes, onions, fresh and dried fruits, fresh, tinned and dried vegetables, jams and jellies, etc.

It is perhaps interesting at this stage to enquire into the official attitude towards the protection of primary industries which produce for the home market. Why is such protection afforded ? A recent Tariff Board report may shed some light on this question. We refer here to the Board's Report of October 12, 1961, on Bean Seed, containing the recommendation of increased tariff protection for the navy bean seed industry. Navy bean seed is the most popular Australian grown variety for use as baked beans. Its main production is in Queensland where it is marketed through the Navy Bean Marketing Board. This Board and the Victorian Seed Beans Marketing Board supported the application for increased tariffs. The application was opposed by several representatives of the canning industry. The Tariff Board, in arguing its case for increased protection, noted that the navy bean seed industry in Queensland had expanded rapidly in recent years, This expansion, the Board said, was achieved with prices for the Queensland crop which, until 1960, were reasonably comparable with costs of imports. The industry's current problems, said the Board, arose mainly as a consequence of the easier availability of imports following the removal of import licensing. The Board saw a need for an improvement on returns to growers to encourage additional production and to " place the industry on a more stable basis ". The Board further noted that the Australian industry at present supplied only a relatively small proportion of the local (Australian) market which is itself expanding, providing " the necessary scope for a large scale increase in production ". The Queensland Marketing Board claimed that Queensland could supply all Australian requirements of navy bean seed. It was claimed also that the industry lends itself to complete mechanization but needs little additional mechanical investment. The Board, believing that Australia could grow all its own requirements also believed that the industry was one which should be encouraged to develop and that this would be impracticable without some incentive in the form of additional tariff assistance. The Board recommended a tariff of 3d. per lb. and the abolishment of by-law entry for the product.

If this recent case of primary industry protection may be regarded as typical it is clear that the main criterion seems to be whether the industry can supply the Australian market. The Board regarded 3d. per lb. as a " reasonable " assistance and thought that this should not impose an " undue " burden on the purchasers. Although not stated clearly, the expectation of further improvements in an expanding industry in the Board's report implies perhaps the expectation of future cost reduction. It may be borne in mind here that the Tariff Board's formula for considering applications for protection by primary industry also stresses that the applicant industry should be reasonably efficient. Efficiency is not clearly defined, but it has been indicated that it does not necessarily mean production at a cost comparable with overseas countries. This also applies to manufactures.

If typical then, the argument for protecting primary industry differs very little from the sort of arguments used to justify the protection of manufacturing industry. If this is true, the conclusion immediately follows that as far as the home market is concerned both manufacturing and primary industry can count on the same measure of protection needed for their establishment or survival.

It is clear, that for primary products which are mainly dependent on the export markets neither a tariff nor prohibition nor differential sales tax can be of more than limited assistance. Various primary export industries, however, receive more support from the Australian community than is contained in a protective tariff or prohibited imports. Sugar is a well known example of a supported home price which is normally well above world price. Wheat, in times of depressed prices, has in the past been in receipt of considerable subsidies. This is also the case at the present time when the domestic consumption price exceeds export market valuations. The high controlled home price for dairy products is another example of the community being made to support an export industry. To such forms of community support should be added the cost of imperial preference. In order to receive special treatment for some primary export products with respect to entry into the British market Australia affords a considerable and important amount of preference to British goods in her own market. This means that we do not necessarily buy in the cheapest oversea's market. This cost to the buying public must be seen as yet another way in which the community supports Australian primary industry.

So far, we have not looked at the various other indirect costs. These consist of government agricultural research, irrigation schemes, roads, railway discounts, etc. However, the costs of such items are very difficult to apportion, either to certain industries or in time and we have to be content with a mere mentioning. There can be little doubt that they are considerable. However, we do not know how they compare with similar community expense favouring manufacturing industry.

IV

Assistance to primary industry has been a traditional policy in Australia. To a certain extent this has no doubt been part of the wider policy of development of the various Australian governments. In other words, such assistance would have taken place irrespective of whether there was a policy of tariff protection of secondary industry or not. It is often argued, however, that primary industry has a right to protection because there is a tariff on manufactured goods, which raises the cost of production in the primary sector thus robbing this sector of its competitiveness both at home and abroad.

It is evident from the discussion so far that this sort of argument has to be used with the utmost care. We have seen that there may be reasons to believe that primary industry as a whole, over the years, and along with manufacturing industry, has received the same benevolent treatment in matters of protection and also, that various export industries have been given special assistance. We do not know how the actual amounts of protection thus afforded to both secondary and primary industry compare in terms of cost to the nation and what their respective effects on the cost levels in the various productive sectors in Australia have been. It can be argued that protection of primary industry has raised the industrial cost level as well as vice versa and the relative magnitude of protection becomes important in the argument. An accurate and economically significant comparison of such magnitudes is, in the author's opinion, not possible. We could, however, assume that manufacturing has, on balance, been stimulated more than the primary sector, keeping in mind the important unprotected pastoral industries and wheat (when not subsidized). This would be in keeping also with movements in relative real value of production and of employment and occupations. This assumption, however, does not mean that we must then support the argument that if tariffs increase costs of production in primary industry, such industry should be protected. A discussion of this latter proposition carries us back to an earlier discussion of the various arguments traditionally put forward in favour of tariff protection as an Australian policy. It may be recalled then, that all three arguments, the " diminishing returns argument ", the " terms of trade argument " and the " redistribution of income argument " were used in favour of protecting manufacturing rather than—and even at the expense of—primary industry. To allow for a tariff-caused cost disability by also protecting primary industry would defeat the alleged purpose of the industrial tariff. The present writer, on theoretical grounds, does not believe that any of the three arguments mentioned provides sufficient support for a long run policy of industrial protection in Australia. In this matter he disagrees with fairly widespread opinion in Australia particularly with regard to a tariff-induced redistribution of income in favour of the factory worker. As explained elsewhere[8] I feel that the only possible " economic " argument in favour of the industrial tariff is that it may have stimulated economic development in the country. This view cannot be supported by rigid proof but the possibility is clearly there. It is also clear, however, that if the industrial tariff is to be supported on those grounds this automatically rules out compensating agricultural protection because the aim has then been to stimulate manufacturing rather than—and if necessary even at the direct expense of—primary production. The only possible economic argument which I feel would then remain in favour of agricultural protection is the same as that employed for protection of secondary industry. This argument would be that if agricultural protection leads to the reaping of so-called " external economies ", i.e. economic advantages accruing to other farmers and the community as a whole rather than to the individual primary producers, agricultural protection might lead to an increase in real income per head in the future. Against this argument we may place the widely held opinion that on the whole manufacturing is far more likely to produce " external economies " than is primary industry. If this latter view is correct and if we confine ourselves to " economic" arguments only[9] then there would seem to be no good case for at least most of our agricultural protection. It should be remembered, however, that " economic " arguments are not the only arguments and that on sociological or other grounds it may be possible to construct a worthwhile case for agricultural protection.

The above discussion raises some very interesting points concerning the rationale of the whole Australian policy of protection but before we try to arrive at any conclusions or suggestions it would seem to be worthwhile to have a brief look at what has actually happened to the various economic sectors in Australia during the period that tariff protection was most vigorously applied.

V

Although the policy of tariff protection for the whole of Australia has been in operation since 1908 it was stepped up greatly after the first World War which had stimulated the growth of manufacturing at home. When looking at economic developments in connection with the tariff it would therefore seem convenient to take the year 1921—in which the Tariff Board was appointed and in which important tariff legislation was passed—as a point of departure. Clark and Crawford,[10] writing

8. *Op. cit.*, Ch. VII and Ch. X.
9. By " economic " argument is meant an argument claiming that protection raises real produced income per head of the population.
10. *The National Income of Australia* by Colin Clark and J. G. Crawford, 1938, pp. 72-73.

in 1938, stated that from 1890 to 1920 there was a stationariness of average real income per head with a rapidly growing population. They claimed that the 1920's definitely marked a new era and that from 1921 onwards productivity and standards of living began to rise rapidly. They said that this great secular change, beginning about 1921, could possibly be explained in terms of the fact that the years from 1890 to 1920 were years of diminishing returns in primary industry. They claimed that Australia during those years was devoting too large a proportion of her labour force to primary production. Since 1921, they said, the numbers engaged in primary industry have virtually ceased to increase and the whole of the quite considerable increase in working population had been diverted into secondary and tertiary production. They added that this diversion had been considerably encouraged by a trade policy deliberately framed towards that end. To illustrate this development they produced the following table:

Percentage Changes in Numbers Occupied

	1891-1911	1921-1935
Primary Industry	+45%	+ 4%
Secondary Industry (including building) ..	+36%	+30%
Tertiary Industry (" other ")	+59%	+11%
All Occupied Population	+47%	+13%

Their comment on these statistics was:

" The great improvement in average real income which has taken place in the last fifteen years is at least coincident with, if not due to, the easing of the flow of labour into primary production and its diversion into secondary and tertiary industry."

Since the thirties employment in secondary industry has further increased. It increased by 35% from 1933 to 1947 and by 21% from 1947 to 1954. Employment in primary industry, however, decreased from 1933 to 1947 by 20% and then remained virtually unchanged till 1954.

The following table gives a picture of the changes in the distribution of the Australian Work Force between 1921 and 1958:

TABLE[11]

Changes in the Distribution of the Australian Work Force
Distribution of the Australian Work Force

Major Industry Group	1921 %	1933 %	1947 %	1954 %	1958 %
Primary Products	22.2	20.5	15.5	13.3	12.2
Mining	2.9	2.4	1.7	1.6	1.4
Manufacturing	19.0	17.8	26.0	27.7	30.3
Building and Power	11.6	12.4	7.3	10.8	9.8
Transport, Commerce Government and other Services	32.8	32.4	42.2	45.6	45.1
Inadequately Defined	11.5	14.5	7.3	1.0	1.2
	100.0	100.0	100.0	100.0	100.0

11. Derived from a Table to be found in *Australian Manufacturing Industry in the Next Decade*, published in April 1959, by the Manufacturing Industry Advisory Council, page 5. The source of the statistics is given as the Commonwealth Statistician to 1954 and a Department of Trade estimate for 1958.

The above statistics leave little doubt that there has been a considerable decline in the percentage of work force and population engaged in primary industry. It is therefore interesting to have a look also at what has happened to the value added to national income by this relatively decreasing section of the working population, on a percentage basis. Unfortunately we cannot take this back to 1921. Some indication of the relative importance of the net value of primary production may perhaps be gained from Colin Clark's statistics.[12] Comparing net produced income with real net value of primary production (including mining) both in terms of his International Units we find that on that basis net primary production contributed 16% to the net national income in 1920-21, 19% in 1929-30, 19% in 1938-39 and 23% in 1939-40. If we take the official statistics, the net value of rural production as a percentage of net national income was 18% in 1938-39 and 22% in 1939-40. In 1951-52 this percentage was 24%, in 1954-55 it was 21% and in 1959-60, 18%. Although over the years there have been considerable ups and downs in these percentages it is clear that there is very little evidence of a long run declining trend in the net value of rural production as a percentage of net national income. One development, however, is worthy of note. If we look separately at agricultural and pastoral production values we notice that whereas in the late thirties and most of the forties agricultural production always exceeded pastoral production in net value this was no longer so in the fifties. From 1949-50 to 1959-60, with the exception only of 1958-59, the net value of pastoral production has exceeded that of agricultural production.

If we concentrate on money values we cannot take into account relative changes in the prices of primary and secondary production. It is therefore, finally, of interest to have a brief look at the developments in the volume of primary production since 1921. Between 1920 and 1960 the population nearly doubled, but so did the production of some of the major primary items. Wool production, between 1921-22 and 1960-61 had increased by 130%, beef and veal production by 120% and mutton and lamb by 140%. While wheat production was double the 1921-22 amount in 1960, it reached only 80% of the 1921-22 level as recently as 1957. Unlike the other products mentioned it would be hard to speak of a rising long run trend in wheat production.

A product that has shown a strongly rising trend in volume produced is sugar: the volume produced in 1960-61 was four and a half times that produced in 1921-22. Butter production, however, although increased by 60% compared with 1921-22, never reached again the higher volume achieved in the thirties.

It would seem, from the above statistics, that both in value and volume primary production has kept pace with the increase in population and national income and that this has been achieved, over the years, with a steadily decreasing percentage of the working population.

VI

It has been claimed[13] that early post-war Australian economic policy did not encourage agricultural development. A change in this attitude came in 1952 when the Commonwealth Government decided to adopt as its policy objective a Commonwealth-wide programme of agricultural expansion. This change in policy was no doubt mainly due to the in-

12. See *Review of Economic Progress* (Queensland Bureau of Industry) September-October 1951 and also *Economic News* (Queensland Bureau of Industry) October-December 1946.

13. See for example D. B. Williams in *Economic and Technical Problems of Australia's Rural Industries*, M.U.P. 1957.

creasing fear that because of rising costs primary export production would soon be so much discouraged that not enough export income would be forthcoming to finance the urgently required imports. In other words, anxiety about the balance of payments in the future and about the capacity to import certainly had a great deal to do with the decision to try to provide more resources and a higher priority for rural industries.[14] This new policy has found its expression in the organization of loans for primary industry from abroad, in import priorities and taxation policies. In addition to this there are the research and other services to farmers, and of course, the government price and marketing policies with respect to rural products. It is possible that the various government measures are responsible for part of the marked increase in production of rural products in the nineteen fifties. The fact remains, however, that the decision to produce is ultimately left in the hands of the primary producers and unless there is protection, in one form or another, as in many cases, market profitability will have been the main deciding factor. The question may be asked why pastoral industries in particular have kept on expanding in the face of rising costs. Rapid technological improvements may well be the answer. Increased use of machines together with such matters as pasture improvement and myxomatosis will undoubtedly account for much. Such developments may have been aided rather than hindered by a shortage of labour on the land and may have had an important cost reducing effect. It is also sometimes suggested, however, that the increase in efficiency is at least partly due to a tendency for the producer to maintain his income in the face of falling prices. Meanwhile, a fairly general fear has been expressed that in the face of rising costs and the continued support of manufacturing and many forms of agriculture our major export industries cannot retain their comparative advantage in international trade. For the economy as a whole this would not matter so much if they were replaced by say manufacturing industries developing a comparative advantage of their own. However, many believe that such a development is unlikely. This would mean that basically productivity is higher in the primary sector as a whole than in the manufacturing sector as a whole, a supposition which seems to be borne out by the statistics mentioned. It also means that we may not expect a development of advantages from growth in the secondary sector as a whole, over time, sufficient to offset a loss of our present advantage in the primary sector as a whole.

We saw earlier, that the "economic" rationale of tariff protection in Australia is the realization of "external" economies in secondary industry which cannot be had in primary industry. This implies a deliberate policy to direct men and resources into manufacturing rather than into rural pursuits. The elaborate system of protection of rural industries as it has grown up over the years and to which we referred earlier in this paper clashes with a "rational" policy of protecting manufacturing in order to reap the benefits of growth in that sector. The more recent and avowed Government policy of attempting to direct more resources into primary industry is again at variance with an established and continued policy of protecting secondary industry in general and poses the serious and unanswered question of the logic of the tariff.

If it is felt that the policy of attracting resources into secondary industry in general by means of a protective tariff has gone too far, it seems to be basically a wrong solution to retain this protection but add to it further protective measures with respect to primary industry. Such "protection

14. See J. G. Crawford, *op. cit.*

all around" might well bring us nearer to a free trade allocation of resources but must surely be regarded as a wasteful method.

To raise these points does not mean that protection of secondary industry mainly, as has been the policy in the past, has been basically wrong, The present writer feels that this policy may have yielded considerable benefits from economic growth. This in spite of the fact that a good measure of primary industry protection at the same time did not fit in with the "economic logic" of the industrial tariff. No doubt some such primary protection was socially and politically desired and perhaps unavoidable.

As far as the future is concerned, the above remarks do not imply that the writer believes that in certain secondary industries there may not still be considerable scope for the realization of growth benefits. He very much doubts, however, whether this still applies to manufacturing in general. If this doubt is justified future tariff policy will have to become far more selective. Unless we want complete planning and socialization, we must gradually begin to limit protection to industries which still promise growth benefits and we must gradually return it to the market forces to determine where, in other cases, our comparative advantage lies. It is by no means suggested that drastic steps be taken to change existing policies overnight. It is suggested, however, that the time has come to have a close look at the basic rationale of our existing tariff policy and to make sure that our future long-run tariff policy is framed in such a way that it forms a logical part of the overall policy aimed at the promotion of economic development in Australia. The time to make such a reappraisal seems particularly opportune in view of the profound changes that are about to occur in connection with the European Common Market and the likely entry into that market of our traditional trade partner, Britain.