

Ordinary people pay big price for free trade;

THE GREAT INDUSTRY POLICY BATTLE

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Free trade is simply a mechanism to benefit a few at the expense of many, argues John Legge.

It wasn't the invisible hand of the market that forced the closure of the Goodyear tyre plant but deliberate policy decisions by the Reserve Bank and successive federal governments.

The Reserve Bank has raised interest rates to ridiculous levels and forced the value of the Australian dollar up while governments lowered tariffs to help other countries' manufacturers sell to the Australian market. Between them, they did not merely make Goodyear's Australian operations unprofitable, they persuaded Goodyear there was no reasonable chance of the factory becoming profitable again.

The closure will cause hardship to the 600 workers made redundant. On experience, 30% will never hold a full-time job again while the remaining 70% will, on average, take jobs paying 30% less than their present wages. Economists will rejoice at this demonstration that their worship of free trade is shared by the Government. The RBA will see the closure as proof its policy of forcing Victoria and South Australia into recession to "balance" the boom in Western Australia and Queensland is working.

Economists' devotion to free trade is like the Pope's devotion to the Immaculate Conception: both beliefs start from rumours dating back hundreds of years and neither is based on anything resembling scientific proof. The truth or falsity of such beliefs is irrelevant. Their main purpose is to separate believers from the rest - free trade versus protection; Catholics versus protestants; Collingwood versus Carlton. These are matters of belief, not fact.

The RBA claims to be tackling inflation but only people out of touch with reality could believe that closing factories in Victoria will stop the Saudis charging \$150 a barrel for oil. Ricardo's theory of comparative advantage is often described as a proof of the benefits of free trade. It was actually a specious attempt to justify the imposition of an unfair treaty on Portugal. It wasn't comparative advantage that made the Portuguese open their country to British manufacturers, but the threat that if they hadn't agreed, the Royal Navy would have withdrawn and allowed the Spanish to conquer their country.

Free trade is unpopular because it causes hardship without offsetting benefits while industry policies are popular because they work. A strong manufacturing sector does not only benefit manufacturing workers. The fact manufacturing workers can earn relatively high wages drags up the wages in low-technology manufacturing and the basic service industries. Conversely, weakening manufacturing industry does not only affect the workers who lose their jobs, other low-skilled and semi-skilled workers also suffer as their avenues to higher-paying jobs are closed.

Workers moving from a high technology, capital-intensive business to a low-technology one will notice the difference clearly enough.

Economist James Galbraith showed that capital-intensive and high-technology manufacturing industries are the only places where most men and women with no formal qualifications beyond high school can earn enough to support a middle-class lifestyle. Another economist, Michael Manove, explained why this was so in impeccable economic language, with no reference to trade unions or tariff barriers.

Free trade hurts ordinary people, as US experience shows. Although the US economy has more than doubled in real terms over the past 28 years, the average real wages of people with only a high school education have declined. Even Americans with college diplomas have barely held their own. Almost the whole benefit of economic growth in the US over the past 25 years has been captured by 10% of the population with advanced qualifications or inherited wealth.

Free trade is everywhere a slogan, nowhere a fact. As free trade is practised in Australia, it is simply a mechanism to benefit a few at the expense of many. The centrepiece of Australia's devotion to free trade has been tariff reduction, but tariffs are a tax, and the revenue lost must be raised some other way. Not only are most Australians expected to see their share of national prosperity reduced, they are expected to pay higher taxes on goods and services to offset the loss of revenue.

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