

# Beware the Sirens' Call of 'Trade Warriors'

CHRISTOPHER LINGLE

A key post-war bureaucrat in Hong Kong discouraged the collection of statistics on the grounds that otherwise governments would be encouraged to intervene. Balance of payments figures provide much fodder for false 'crises'.

**T**HE good news is that Australia's current account deficit has reached a new record! Doesn't sound so good ...? Well, consider that Japan's current account surplus has also reached record levels while its domestic economy experienced the fifth consecutive quarter of recession. It should be clear which situation is more desirable. The point is that current account deficits are neither 'bad' nor are surpluses 'good', per se.

The bad news is that Australia's widening current account deficits may reinvigorate quiescent protectionism. Before sabre-rattling by a new breed of 'trade warriors' drives a wedge between some of Australia's important trading partners, it would be best to examine the nature of these trade figures.

A variety of factors conspire to expand these deficits. First, recent sharp depreciation of the currencies of many South-East Asian countries led to a rise in consumption of Australian imports from those countries. At the same time, weaker currencies in South-East Asia led to higher costs for Australian-produced goods and a decline in sales to countries in that region. Second, Japan's domestic economy remains mired in recession, so its imports and tourist receipts are lower. Third, China continues aggressive promotion of a wide assortment of export goods for which it has a distinct comparative advantage. Fourth, Australia's economy has experienced the highest growth rate in its OECD cohort, so that rising incomes cause increased purchases of all goods, including imports, especially from countries with weak currencies. Finally, net

foreign capital inflows push current accounts toward deficit.

Despite the inescapable logic of these various forces, the doomsday scenarios of looming trade deficits with Australia's trading partners in East Asia have little basis in econom-

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ics. For trade deficits to be 'bad' or trade surpluses to be 'good', trade would have to be a zero-sum game, where one trading partner's gain causes another's loss. On the contrary, trade is generally regarded as a positive-sum game where all parties are, on balance, winners.

Nonetheless, expansions in international trade do pose potential political problems due to dislocations suffered by some workers or producers. While the affected parties are usually relatively small groups, they ex-

perience relatively large individual losses and have a strong incentive to form and fund interest groups. Thus, they may gain a disproportionate share of influence over politicians searching for electoral support or campaign funding. Meanwhile, benefits from trade accrue to the overall community, but 'winners,' so that the good of the many is sacrificed for the good of a few.

Trade is often blamed for increasing income gaps between skilled and unskilled workers in mature, industrial economies. A better explanation, however, is that rapid changes in technology enhance rewards for skilled workers while lagging productivity among the unskilled causes them to lose ground. So it is spurious to think that eliminating or limiting trade will improve the level of wages or equalize the distribution of incomes.

Economic nationalism imposes costs that are too great to ignore. One non-monetary cost of protectionism is that it encourages divisiveness. Projecting trade as a zero-sum game reinforces a 'them-versus-us' mentality. Not only is the economic logic of protectionism wrong, the tone of ominous warnings to Asian trading partners provides fodder for populists and racists. With mainstream political actors providing credibility for updated notions of a 'yellow peril' from Asian imports, it is easy for racists to exploit such images for recruitment purposes or as an excuse to torment targeted ethnic groups.

It may come as a shock to some that Pauline Hanson and her right-wing allies have strange bedfellows on this issue, including protectionist-minded trade unionists and leftist,

populist politicians. Reinforced ethnic divisions and international disrepute are high prices to pay for enhancing the careers of certain politicians or protecting the jobs of a few workers.

Aside from the social costs of protectionism, sustaining high wages in one sector by keeping out cheaper foreign products results in higher prices for domestic consumers. Perversely, the poor are 'protected' from low prices in order to preserve relatively high-wage jobs. Indeed, all consumers of goods made in protected sectors have less discretionary income to spend on other domestically-produced products or services. Consequently, job growth in other sectors of the domestic economy will suffer. In a nutshell, protecting visible jobs destroys 'invisible' jobs.

The highest cost of protectionism, however, is, perhaps, paid by future generations whose job opportunities are stolen by both higher production costs and slowing productivity gains that impede economic and employment growth. Economic nationalism is backward-looking and sacrifices the young to protect the old by lowering economic growth so that fewer jobs are available to new labour market entrants.

Some inescapable realities confront all countries as the global economy unfolds. Waves of competition will wash over the world, and those countries whose economies have the most flexible institutions and most nimble responses will be best able to weather these incessant commercial storms. Industrial logic from the last century provided an illusion that high tariff walls or restrictive labour policies can provide a safe haven from global tempests.

Higher protective barriers make all countries poorer. Attempting to protect the jobs of the few will impose costs on the many, i.e., most consumers and taxpayers. Worst of all, the disenfranchised young will see their future stolen away by attempts to preserve the past or to promote the present.

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# The Anti-Business Mentality

PATRICK MORGAN

Academics perennially want governments to spend more money, particularly on universities. So why are they so hostile to the very people who organize wealth creation?

**L**ATE last year I received an unsolicited 'thought' via e-mail from our university chaplain: 'Only when the last tree has died and the last river has been poisoned and the last fish has been caught will we realize we cannot eat money' (Cree Indian Saying). Purporting to be a prick to our consciences, this saying was really intended to confirm the ideological prejudices of the anti-business atmosphere into which it was released. At the same time I read a review (really a promotion) of a play called 'Infectious' in *The Age* of 22 September 1998 whose main theme was that 'money, economic rationalism and rampant consumerism' are 'a virtual virus ... the greatest threat to the human species we will ever face'. Money, you see, is infectious. The lead letter in *The Age* of 2 October 1998 was headed 'Why schools and business don't mix', the reasons given being that business pollutes the environment, produces damaging services, wastefully uses scarce resources and employs dangerous work practices.

The mindset common to these examples is that money and business somehow diminish our humanity. Why have such dubious views risen to prominence so easily? Some decades ago Lord Snow said the big divide in our culture was between the humani-

ties and the sciences. This has not turned out to be true. A bigger split is between those who are in business, and those who have never experienced it—which includes many in university humanities faculties, religious bodies and public-opinion-forming groups. Many in these groups tend to be reflexively anti-business. Business people these days have usually gone through tertiary education, so they understand its culture. But the same doesn't apply in reverse. There are now whole groups of families (teachers, public servants, welfare workers and so on) who have been in the public realm for generations; they have never been in business and do not seem to understand how it works. Robert Murray has recently pointed out in *Quadrant* how deficient Australian historical interpretation has been (with exceptions like Geoffrey Blainey) in taking into account economic factors.

When Joan Kirner left the Melbourne Cricket Ground Trustees, she complained that the trustees had gone commercial and so could not serve the public good. Here we see the false opposition set up between business and social benefit. Mrs Kirner's constituents, many of whom inhabit public-sector jobs, believe that governments must collect and distribute vast sums to even up social injustice; ordinary

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