

MAKING A DIFFERENCE: WRITING ABOUT TARIFF POLICY 1958-67

In 1958 I returned to Australia from the LSE, then teaching for four years at Melbourne University and moving in 1962 to the ANU, where I stayed until 1967. During these nine years in Australia my primary research activity concerned tariff policy. This actually had two aspects. First there was work on the theory of tariff policy, including the theory of effective protection, but also many broader issues. This culminated in the two books that I wrote in Oxford from 1968 to 1972, namely *The Theory of Protection* (1971) and *Trade Policy and Economic Welfare* (1974).

The second aspect concerned specifically Australian tariff policy. I wrote several articles on the subject, delivered several public lectures and, seen in retrospect, had eventually a considerable influence on debates and actual policies on the subject.

Here I am concerned with this second aspect. It is of particular interest (at least to me!) how a relatively junior academic could have this effect. It is also of interest to put all this in perspective. Many individuals, and some deeper historical forces, played a role in the radical – but very gradual - trade liberalisation that took place in Australia in the sixties, seventies and, above all, in the eighties thanks to the Hawke government. It was radical in its total effect, though certainly not in its speed. This discussion here is

narrowly focused on my own activities in Australia, which ended in 1967.

Background: Tariffs and Import Licensing in Australia

Australia's tariff history goes back a long way, in fact to protection in the state of Victoria in the nineteenth century. But there was a big increase in protection after the First World War, which was also the time when the Tariff Board was established. This interesting institution was meant to be an independent (but government-appointed) board, with its own staff, that would review all proposals for new tariffs or changes in tariffs, and give advice to the Federal government. Australia developed a comprehensive system of protection by tariffs. By the end of the nineteen fifties an import licensing system was superimposed on this, the result of the balance of payments problem that resulted from the slump in commodity prices when the Korean War boom ended in 1952. At that time Australia was more protectionist than any other OECD country other than New Zealand. It had not participated in the post-war reciprocal trade liberalisation agreements under the auspices of GATT. Tariffs and import controls were important ways in which the government intervened in the economy and affected the development of manufacturing industry.

The Beginnings: At the LSE

I come now to my own involvement in all this. First I must go back a little. Before I left for London in 1953 I had discovered the *Brigden Report* (1929)¹. The conclusions of this report – especially the argument that tariffs were needed in Australia to employ a growing population – had become Australian orthodoxy. In addition the report contained an innovative calculation of the cost of protection. We had not studied this Report at Melbourne University (which, perhaps, was surprising), and I came across it while working at the Department of National Development. It was well written, but it puzzled me on a casual reading. I did not really understand the arguments and the significance of the “cost of protection” calculations. That was an intellectual challenge.

Therefore, in 1955, when I was at the LSE, I worked through it carefully. I tried to relate it to the trade theory that I was learning, and the result was my first article in this field, namely “The Calculation of the Cost of Protection”, published in *The Economic Record* 1957. In retrospect this was one of my best, and most original, articles. I also produced another, quite short, article on tariff theory, namely “Tariffs, Subsidies and the Terms of Trade”, published in *Economica* 1957. This was a by-product of my thorough study of the proofs of James Meade’s *Trade and Welfare* (1955), but also involved an issue touched on in the *Brigden Report*. But my LSE Ph.D thesis was not on tariff theory or policy at all; it was on growth

¹ J.B. Brigden et al, *The Australian Tariff: An Economic Enquiry*, Melbourne: Melbourne University Press, 1929.

and trade (primarily on the effects of growth on the terms of trade). At one point my supervisor, James Meade, reminded me firmly that I should only be writing one thesis, and to put tariffs aside, at least until I finished my real thesis, which I did early in 1956.

The Adelaide Lecture 1958

I returned to Australia, with my recently married wife, Dorothy, in January 1958 and from March started teaching in the Department of Economics of the University of Melbourne. In June 1958 I gave a lecture at Section G of the Australian and New Zealand Association for the Advancement of Science (ANZAAS) Annual Congress, held in Adelaide. These ANZAAS Section G annual meetings were the predecessors of the annual conferences of the Economic Society of Australia. My topic was “Import Restrictions and Tariffs: A New Look at Australian Policy.” Essentially I argued that tariffs should replace import restrictions (which were then pretty comprehensive), and that tariffs should gradually be made uniform ad valorem. Possibly a further step might be to add export subsidies, and eventually replace the uniform tariff and the uniform export subsidies with a devaluation. All this was proposed in the most cautious way, allowing for gradualism, and various qualifications. I never actually said that the final step would get one to “free trade,” which was a dirty word at the time. But the focus of the paper was on the desirability of tariff rate uniformity, or a movement in that direction.

I spelt out arguments against protection in detail. I saw myself applying basic international trade principles to the Australian case. The lecture was published in *The Economic Record* 1958, and there I noted that the proposal for a uniform tariff was not new, but had been made by Peter Karmel, Heinz Arndt, and Eric Russell earlier. My detailed analysis and arguments were new, and especially the pragmatic gradualist proposals. Also, I put much more focus on the pattern (and thus non-uniformity) of protection – and on the comparison of import restrictions and tariffs in that regard – than could be found in the usual trade theory literature.

This lecture made a big impact. It was fully reported in the newspapers, and certainly attracted more attention at Section G of the conference than any other presentation.²

At this point, I have a reflection. An Australian returns from graduate studies overseas – in those days from Britain, now from the United States – full of what he has learnt (or been indoctrinated by) at his University there, usually a disciple of his teacher. He then carries on with this work in Australia, often struggling to publish articles in overseas journals. This is a fairly typical story. Eventually he becomes conscious of his

² I must add that the newspaper reports gave particular pleasure to my father, who was lying in the Adelaide hospital (near the University) after a coronary attack while on a business visit to Adelaide. He died a little later. That was in the days before by-passes. Dorothy and I had moved to Adelaide, staying in a small hotel in North Adelaide, to be with him. Donald Cochrane, my Professor at Melbourne University, had very generously allowed me to work in the Economics Department of Adelaide University for some time.

Australian environment and of Australian policy issues and adjusts his academic interests to this. (Incidentally, since I have myself in mind I am writing “he” and not “he or she” here). I was doing the same. The difference for me was that because of my pre-existing interest in Australian policy I proceeded immediately to make that adjustment to thinking about Australian policy. It was the natural thing to do.

At that time, in the economics department of Melbourne University there was absolutely no pressure to publish in international journals. Indeed, when I arrived I had four publications in British journals, namely in the *Review of Economic Studies*, in the *Oxford Economic Papers*, in *Economica*, and in *The Economic Journal*, all theoretical. I suspect it was thought a waste of time, or just an oddity, to write that sort of thing. But prestige did attach to making a domestic policy impact. How times have changed!³

The Logic of Australian Tariff Policy

I had already been reading Tariff Board reports to get an idea how the members and staff of the Board thought, but tariffs became really important only from 1960 when the whole system of quantitative import restrictions was removed. I then studied in detail the processes and apparent logic (insofar as there was any) of tariff-making. This was an important stage in my work. If one is to criticise a system one has to

³ I might also add that – compared with the current (2013) situation – I did not find it necessary to write up elaborate and time-consuming research proposals for an Australian Research Council or similar institution. I had plenty of spare time after fulfilling my teaching obligations. A few “effective protection” calculations I just made myself.

understand it. Usually there is some “logic” even if it is not the logic that can be found in the professional economics literature. Indeed, there seemed to be no connection between standard economics and Australian tariff “logic”, so this was a challenge.

Looking back, I can see that one reason why my work made an impact was that I came to understand the existing system with all its complications. One could be cynical about these complications. Great effort went into making calculations of “cost disabilities” that Australian industries suffered relative to countries that supplied imports. One might argue that these calculations were pointless, or at least would not need to be made if one wanted to construct a sound tariff system, or just go to free trade. The approach seemed to ignore the idea of comparative costs. Furthermore, all these complications are an invitation to rent-seeking, to politicising of policy (even corruption), and lead not just to misallocation of resources among industries but also to a waste of bureaucratic energy. Even now anti-dumping measures in many countries, which involve calculating costs of production in different countries, lead to this kind of basically ridiculous activity. One is reminded of a medieval scholarly concern. How many angels could dance on the point of a needle? Was that ever an interesting question?

To come back to the main story, as I have said, the next stage in my work was to study in depth the logic of Australian tariff policy, both the logic in general (which was based primarily on the Brigden Report)

and the logic of the tariffs in particular – the detailed differential system. This had never been done before, probably not in any country. I tried to relate this logic to standard economics. An element of the logic was the idea of the “made-to-measure” tariff, a term I did not invent but did popularise. My research was thus empirical, but not statistical or econometric. Rather, it was a study of institutional behaviour. The result was first published in “The Logic of Australian Tariff Policy”(1962), having been initially presented at a small conference of the Economic Society in Sydney. I incorporated this material in a much more widely read, comprehensive review of the history and current situation of Australian tariff policy in my contribution to *The Economics of Australian Industry* (1963).

Meanwhile I had also realised the significance of the concept of “effective protection”, and I also incorporated this in my writings, with some calculations. I have discussed my effective protection work, and both its background and its international development, in a detailed recent paper, “Effective Protection and I” (2005), so will not pursue this further here⁴.

Later Policy Proposals and Developments

I made a new set of policy proposals, assuming a fixed exchange rate regime, and incorporating effective protection, in two articles in the *Australian Financial Review* (1962). The general idea of a uniform tariff, at

⁴ This paper is on page 3 of my website.

least as a basis for considering divergences from it, remained, as did the pragmatic, step-by-step approach. My published contributions in this area were completed with two more papers. The first was a detailed analysis of the Vernon Committee's proposals on tariff policy – proposals which were much influenced by my ideas, but were also a little muddled⁵. The second was the 1967 Fisher lecture – “Australian Tariff Policy” (1967) - which analysed very critically recent tariff policy and also set out a pragmatic programme in detail.

The history of Australian tariff reform and its associated battles, involving at first, above all, the Minister for Trade, John McEwen, and the chairman of the Tariff Board, Alf Rattigan, has been written up in many places⁶. Much happened during the sixties, and, above all, later. I reviewed the whole Australian liberalisation process up to the early nineteen nineties in “Protection and Liberalisation in Australia and Abroad” (1995), which was actually my second Fischer lecture. Here, finally, I just want to reflect on my own contributions to the policy changes, bearing in mind that most of the changes actually took place after I left Australia in 1967.

Why did my Work make an Impact?

⁵ J. Vernon et.al, *Report of a Committee of Economic Enquiry* (the Vernon Report), Canberra, Commonwealth of Australia, 1965.

⁶ See, among others, Alf Rattigan, *Industry Assistance. The Inside Story*, Melbourne: Melbourne University Press, 1986, and Ross Garnaut, “Australia: The Political Economy of Policy Reform”, in John Williamson (ed.), *The Political Economy of Policy Reform*, Washington DC, Institute for International Economics, 1994.

It is interesting – at least to me - to ask why my work made a quick impact. It may shed some light on the role of academics in influencing economic reforms. My policy lectures and articles made an immediate impact for four reasons.

Firstly, they were timely. With the inevitable removal of import licensing in 1960, tariffs became really important again, and members and staff of the Tariff Board needed guidance. It was obvious that the existing system, heavily influenced by political pressures, was inadequate. It was pure chance that the subject I had been thinking about and working on, and that had not been much discussed or studied by Australian academics for some years, was becoming highly relevant at that time. At that time Australian academics were generally preoccupied with macroeconomics.

Secondly, two crucial individuals, Alf Rattigan, who became Chairman of the Tariff Board in 1962, and Bill Carmichael, who was his “right-hand” man, held key positions and were prepared to rethink tariff policy and the details of tariff-making. They were politically skilled, and prepared to support major changes if in the national interest. My work filled a need for them in providing an intellectual basis as they worked out their reform proposals. Bill Carmichael was particularly important in this process.

Thirdly, my proposals were pragmatic. I never proposed radical, politically inconceivable changes. I always suggested changes in stages, laid out

alternatives, and, above all, had in mind gradual changes. Mostly I made the explicit assumption that the exchange rate would stay fixed, this being the basis for proposing some kind of uniform tariff. In retrospect I was surprisingly moderate and advocated second-best (or worse) solutions. It is not surprising that, much later, a more committed “free trader” - Wolfgang Kasper - noted (or even accused me) that I was really a protectionist. Perhaps I was really a free trader in sheep’s clothing. In fact, by the end of the nineteen eighties a programme of staged tariff reductions initiated by the Hawke Labor government was much more radical than I would have thought possible in the sixties.

Fourthly, it helped that I was clearly familiar with the details of tariff-making, and did not just rely on general principles. I could not be accused of being an academic who only knew “theory”.

Some Further Reflections: Role of the Exchange Rate

All my proposals were in the realm of the second-best. I made it explicit (|though briefly) that a first best policy would involve devaluation of the exchange rate, as part of a movement to free trade. But, in practice, I dismissed this as unrealistic. This was part of my pragmatism. The same applies to the policy proposals of the Tariff Board involving a tariff “benchmark” - i.e. a uniform tariff rate as a reference point for tariff rate changes. The members of the Tariff Board had no

authority to make recommendations about exchange rate policy.

In 1983 the new Hawke (Labor) government floated the Australian dollar. The market then depreciated the dollar in 1985 and 1986 owing to the decline in the terms of trade. It would then depreciate further if there were tariff reductions, so the possibility of a first-best policy emerged. This led to the remarkable tariff reforms of the Hawke government, aiming at the gradual reduction and eventual elimination of all tariffs⁷.

In effect, depreciation came first and tariff reductions followed. The policy was still pragmatic in the sense that tariff reductions were gradual, though pre-announced. But the floating of the dollar made possible a pragmatic first-best policy. Many of the complications about second-best policy (including the effective protection measurement) about which I had been writing, and which had influenced the Tariff Board, became irrelevant.

Another Reflection: Was I a Neo-Liberal or an Economic Rationalist?

Australia's discussion and implementation of tariff reforms has appeared to be the forerunner of an international trend favouring the freeing of markets, fostering competition, and sometimes a reduction of the role of government in the economy. In the eighties

⁷ The economic adviser to Prime Minister Hawke, Ross Garnaut, played an important role in this process.

these ideas were associated, above all, with Margaret Thatcher and Ronald Reagan. Sometimes budgetary stringency would also be associated with such policy prescriptions. In Latin America – and sometimes even in Australia - such prescriptions were regarded as the evil fruits of “neo-liberalism.” To be described as a “neo-liberal” was not meant to be a compliment. In Australia some of the firmest protectionists were on the political Right, but “neo-liberal” has been a term more used on the Left. Even worse was “market fundamentalism”, a term which is self-explanatory and which, even now, might be applied to some rather extreme US economists and politicians .

What was my underlying philosophy or motivation in the sixties? Was I a neo-liberal or – even worse – a market fundamentalist? The brief answer is “no”. Rather, as a student I fell under the influence of Arthur Pigou’s *The Economics of Welfare (1920)*. This book showed how externalities should be dealt with in the presence of market failure through appropriate taxes and subsidies. There is surely an important role for governments. That is indeed a “liberal” way of thinking, but not what the enemies of so-called neo-liberalism have in mind.

There is a term that was invented by an Australian sociologist. It applied to an approach or philosophy that had, in his view, an excessive influence on Australian Federal government policy in the eighties. This was “economic rationalism.” It seemed to mean much the same as was later termed in Latin America “neo-liberalism”. To be accused of being an economic

rationalist was not really meant to be a compliment. But I was indeed an economic rationalist if one interprets the term as saying that one seeks and advocates rational policies. The existing Australian system of extensive government intervention through the tariff system was in my view, “irrational”, at least from a national interest point of view. Indeed, only in special cases is intervention in international trade rational, and our tariff system, as it had historically developed, did not seek out such cases. But such cases do exist, and more important, rational arguments for various interventions in the form of taxes, subsidies and regulations – whether for income distribution, market failure, or information reasons - certainly exist, and indeed can be numerous.

In addition, I was aware of, and motivated, by the social costs of rent seeking generated by the Australian tariff system through the political process. I believe that both Alf Rattigan and Gough Whitlam, as well as the Liberal Party supporters of reform, were similarly motivated⁸. But that is by the way.

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By W. Max Corden

⁸ To be precise, one must distinguish the distortion costs of political decision making when interest groups carry heavy weight relative to a focus on the national interest, from the resource costs of lobbying by the private sector (i.e. rent seeking). In addition, there are the human resource costs in the public sector of a complex bureaucratic system.

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[All the articles above that are marked at the end with an asterisk (*) are reprinted, sometimes abbreviated, in this book.]

