Transparency in trade policy

(Remarks by Saul Eslake at a Panel Discussion on 'The Future of Trade Policy' at the 40th Conference of Economists, Australian National University, Canberra, 13th July 2011)

Australian economists have long recognized that most of the benefits from trade liberalization come from reducing our own trade barriers, rather than from foreigners reducing theirs – notwithstanding the way that trade negotiations are usually portrayed by governments as a matter of reluctantly making 'concessions' to foreigners (reducing barriers to imports from them) in exchange for them making 'concessions' to us (reducing their barriers to our exports to them).

Those benefits include cheaper imports, a wider range of imports, and the productivity gains which result from domestic producers being exposed to greater competition – prompting them to manage the labour and capital which they are employing more efficiently or, alternatively, to release those resources for more productive use somewhere else[1].

And that has been Australia's experience of trade liberalization. Yes, in the wake of the dismantling of trade barriers since the late 1980s, some businesses have closed, some industries have contracted either in absolute terms or as a share of GDP, and some jobs have been lost. But the net result has been lower prices, higher levels of productivity, and *much* higher levels of employment and lower unemployment than was the case before trade barriers began to come down.

Yet while those results are clear *ex post*, the case for removing our own trade restrictions have never been an easy one to make *ex ante*. It has always been far simpler for those opposed to trade liberalization to point to existing jobs which might be lost, than it has been to make the case for change by drawing attention to the higher prices which all consumers pay, or the jobs which don't exist, as a result of existing trade barriers, or other policies which have the effect of inhibiting trade.

In Australia's experience, the role played by the Productivity Commission and its predecessors in measuring and exposing the economy-costs of trade barriers has been both crucial and unique. The Productivity Commission and its predecessors have provided independent, rigorous, and authoritative quantitative estimates of the costs to consumers and to the economy as a whole of trade barriers – estimates which helped persuade policy-makers of the merits of trade liberalization, and which they could in turn use to persuade the public of the benefits to be had from trade liberalization.

There is no other institution or agency like it anywhere else in the world, with the very recent exception of New Zealand, which has just established a Productivity Commission of its own.

There is a desperate need for Productivity Commission clones in other countries if the stumbling blocks which have prevented any meaningful progress being made in the Doha Round are to be overcome.

That's particularly because, as traditional trade barriers (tariffs and quotas) in the developed world have come down to minimal levels (with the conspicuous exception of agriculture), the real obstacles to further multi-lateral trade liberalization are the so-called 'behind the border' barriers – licencing requirements, non-recognition of foreign qualifications or accreditation, local presence or ownership requirements, and the like – which proliferate in services sectors.

[1] See, for example, Productivity Commission (2011: 196).

Typically, these ‘behind the border’ barriers have been established for *domestic* policy reasons (consumer protection, health and safety, etc.), rather than with a view to inhibiting trade, even if they have that effect.

And they can only be overcome by domestic policy processes – not at the behest of international agencies like the World Trade Organization, which can be too easily portrayed (especially by those who wish to maintain the anti-competitive effects of these ‘behind-the-border’ barriers) as intruding upon ‘national sovereignty’.

The Tasman Transparency Group, of which I (and, more importantly, a number of other economists with a longer and more distinguished record of involvement or achievement in trade policy) are members[2], believes that Australia should be at the forefront of efforts to encourage other countries to reform their domestic policy processes by establishing agencies like our own Productivity Commission in order to shed light – often for the first time – on the economy-wide costs of their own trade barriers and other domestic policies, emphasizing that this is in *their own* interests, not ours (Tasman Transparency Group 2011: 4).

Given the important role which the Productivity Commission and its predecessors have played in Australia’s own trade liberalization journey, it is striking that the Government’s most recent Review of Trade Policy specifically excludes the Commission from any role in determining whether future trade agreements are in Australia’s national interest, reserving that role instead to the Parliamentary Joint Standing Committee on Treaties.

I’ve got nothing against that Committee – or indeed any other group of politicians – being involved in scrutinizing trade agreements and other treaties to which Australia might become party. In a democratic system, it’s right and proper that elected representatives of the people have the final say on what obligations we as a nation take on.

But scrutiny of proposed trade agreements by a Parliamentary Committee is inevitably and unavoidably going to be politicized, and to at least some extent predetermined by the affiliation of the majority of the Committee’s members to the government of the day.

We know, of course, that governments of all political persuasions ‘pick and choose’ whether to refer an issue to the Productivity Commission, according to whether they want to hear the answer that they think the Commission will give. Hence, for example, the Gillard Government’s carbon pricing plan, announced last weekend, gives the Commission a role in assessing the effectiveness of the assistance that will be provided to emissions-intensive trade-exposed industries (the ‘Jobs and Competitiveness Program’; but pointedly excludes it from assessing the effectiveness of the myriad forms of assistance that will be given to renewable energy producers, including the $10bn Clean Energy Finance Corporation and the $3.2bn Australian Renewably Energy Agency.

It’s hard to avoid the inference that that’s because the Greens (whose support is vital to the Government’s plans) know that the Commission will recommend against the continuation of assistance to emissions-intensive trade-exposed industries (something to which the Greens are opposed), but would also (given the chance) recommend against assistance to renewable (to which the Greens are profoundly attached).

[2] See http://tasmantransparencygroup.com/.

The Government, in rejecting any role for 'independent and transparent assessment' by the Productivity Commission in scrutinizing proposed trade agreements, made the following extraordinary statement:

> "quantitative analysis can be highly misleading, with conclusions heavily dependent on simplifying assumptions used in modelling" (Department of Foreign Affairs and Trade 2011: 19).

This is extraordinary not because quantitative analysis doesn't depend on 'simplifying assumptions' – of course it does – but rather because it comes from a Government which has just announced a policy of putting a price on carbon (one which, in most major respects, I support) and which makes a number of assertions about the impact of that policy on, among other things, growth, inflation, and the disposable incomes of a wide range of households based on, yes, 'quantitative analysis' (in this case by the Australian Treasury: 2011); and a Government which has been more than willing to use the Productivity Commission's 'quantitative analysis' to berate the Opposition's 'direct action' climate change policy.

While I can accept that a government may wish to reject the results of a 'quantitative analysis' of a proposed trade agreement – or indeed any other policy proposal – I can't think of any *valid* reason why a government should refuse to allow one to be undertaken at all, before making a decision.

So although the Government has accepted nine of the Productivity Commission's ten recommendations in its 2010 report on *Bilateral and Regional Trade Agreements*, it really should have endorsed all of them, in my humble opinion.

References

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