

**Federated Farmers Of New Zealand  
Dairy Section Conference Tariff Debate**

**Does Tariff Protection Cost Jobs?**

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## **DOES TARIFF PROTECTION COST JOBS?**

I have great sympathy for our opposition in this debate.

For many years I thought tariffs created jobs and economic growth, and like losing faith in most attractive, simple, warm and cuddly propositions, I hated learning the truth in this case.

So perhaps a brief saga on my learning curve may be appropriate.

At university, at the height of Keynesian economics in the 1950s, I learnt about market failure and how governments could, by regulation and intervention, solve all our worldly woes.

Not only did I get taught it, I believed it.

Thus, shortly after I left university, and being in a hurry, my brother and I decided that the best way to crash into the New Zealand economy of protected monopolies was to give the country what it seemed to want - a New Zealand motor vehicle.

This proposition conformed perfectly with the 'protection all round' ethos of the day.

Well, to cut a long story short, New Zealand was not inflicted with its own motor vehicle, but to this day we still do something nearly as stupid and assemble other people's.

Since then I have been involved in manufacturing almost everything - stapling machines, forklift trucks, washing machines, refrigerators, crockery, TV sets, bricks and bras.

I have to tell you that many of these businesses never made a contribution to the New Zealand economy.

In fact, worse than that, many were a deadweight cost.

Naturally, I and other manufacturers didn't rush out and tell you that. No fear.

We told you how indispensable we were to the New Zealand economy. In addition to enlisting the Manufacturers' Federation in our service, one of my businesses had a whole floor of people in a building on The Terrace who did nothing but tell politicians, bureaucrats and anyone else who would listen how valuable we were.

I am afraid, however, that the truth is that most of those businesses relied on heavy protection, they were a disaster for the economy, and ultimately when we had to shut them down, they were a disaster for us also.

A typical example was the television assembly industry.

We would go to Japan and explain to wide-eyed Japanese that our government wanted us to assemble their TV sets in New Zealand.

They could hardly believe their ears.

They said no one assembles Japanese TV sets. "Do you have cheaper labour?" they asked. "Make your own tubes? Transistors? Anything?"

"No," we said, "we just have to make them in New Zealand, and because there are only a few of us permitted to do this, we make good money doing it."

After much time and explanation and shaking of heads, the Japanese finally agreed to sell us the bits to assemble their sets in New Zealand.

However, they explained this was very costly.

They were making tens of thousands of sets a day and we only wanted parts for a few thousand each year.

At great cost they contracted outside people to come in, sort out all the pieces we needed and put them in boxes.

They got engineers to write out all the instructions in English for reassembly, and shipped them on their way.

Naturally, someone had to pay for this, and on average they charged us, as a special favour, 110 percent of the price of the finished goods - all boxed ready to go to the retailer - for the parts.

We then opened a factory, imported much machinery, paid the highest wages in the neighbourhood, employed the most intelligent engineers to decipher the instructions, used a great deal of electricity, and finally produced a TV set with negative New Zealand content at twice the imported price.

Thanks to Roger Douglas and David Caygill, that nonsense has gone in the TV industry and many others.

As a result, TV sets and many other goods have halved in price.

I think the saddest party in this story is not really the consumer who got ripped off but the people in that industry who worked their guts out but, due to no fault of their own, made no contribution to the society in which they worked in exchange for the goods and services they consumed.

They may as well have been digging holes and filling them in.

They were, in fact, on welfare and the welfare cost was much higher to society than the dole.

New Zealand is not a rich enough society to waste our talents this way. We must do what we are good at and buy what others are better at.

An even sadder story than TV assembly is that of Crown Lynn crockery.

Based on the infant industry theory and very talented lobbying, Crown Lynn was able to obtain protection for 70 percent of the New Zealand crockery market.

You would think that with this base of business we could build an industry that would be internationally competitive.

Unfortunately, the more protection we obtained, the more we needed.

The problem was that rather than concentrate on a few products and develop real skill and talent in depth, we tried to make the whole spectrum of crockery to supply 70 percent of the New Zealand market.

We concentrated on the home market because it was easier and guaranteed.

We made everything, but were master of none.

By the time we had to stand on our own feet (having been an official infant industry for 45 years) we found we had dispersed our talents.

In addition, under this protection regime, our management let their guard down and our unions were able to entrench totally uneconomic work practices.

When we told the unions these practices would have to stop if we were to survive, their answer was no way, they would rather take redundancy.

You farmers know from the bitter experience of the freezing industry that once protection (based in that case on licensing) destroys the work culture it is easier to start from scratch, like Fortex, than rebuild.

Protection destroyed Crown Lynn, and all those jobs.

I believe New Zealand could have an internationally successful crockery industry. We certainly have the skills and the raw materials.

Such a successful industry will only develop, however, when someone is prepared to stand up to the world and build a team with the talent and desire to be winners in this huge, open, competitive market.

You might say to me, surely these two examples are exceptions. Surely most of the industries still receiving protection are more efficient than that.

I am sorry to say that due to successful lobbying by Manfred and others, the worst example of protected waste still carries on regardless. This is the motor vehicle assembly industry.

This industry is much worse than the TV assembly industry.

Nowhere in the world do they assemble dozens of models of car for three million people.

This so-called industry is a value destruction machine.

We pay a subsidy of \$10 for every dollar the industry cuts off real GDP.

Motor vehicles are one of the largest items of capital expenditure for most businesses.

They are also one of the largest items of household expenditure.

The huge 35 percent tariff which the government has given the industry imposes a massive burden on the rest of the economy.

Part of this burden is that, due to higher costs, many truly productive jobs that would otherwise exist are never created.

If tariffs cost jobs we should expect to find high rates of unemployment in the most open economies and low unemployment in the most protected ones.

But what we find is that Argentina and other third world countries that have followed inward-looking policies have endemic unemployment, while some of the world's most open economies - like Hongkong, Singapore, Switzerland and Sweden, have the best employment records.

Contrary to much myth-making in the West, Japan is another country with few external trade barriers for industrial goods, and as it has become more open in recent years its high employment performance has not suffered.

But, our opponents will say, hasn't unemployment increased in New Zealand as trade barriers have come down?

The fact is that unemployment was rising through the 1970s, long before serious trade liberalisation got underway.

Economic studies have invariably found that trade liberalisation programmes have, at most, a small and temporary effect on unemployment.

The dismantling of trade barriers by the industrial countries in the 1950s and 1960s was associated with high levels of growth in output and employment.

Few people would argue that CER has been responsible for unemployment in New Zealand and Australia.

The reasons for New Zealand's unemployment are largely to be found elsewhere.

The fundamental one is a labour market that does not work - that does not allow labour in declining industries to be absorbed smoothly in new and expanding industries.

The problem is aggravated by a welfare system which reduces the incentives for many to take employment, and a failing education system.

Current unemployment is also due to poor decisions on wage fixing during the period of disinflation, in particular the disastrous 1985/86 wage round.

This pushed up the real exchange rate and priced thousands of New Zealanders out of work.

I wish Manfed would concentrate on these fundamentals and drop its obsession with protection and the Reserve Bank.

We still have economic illiterates arguing that New Zealand should not be reducing its trade barriers while others maintain theirs.

This is pure Sutchism. Sutch deplored a policy of "making New Zealand an island in a sea of controls". But protection, as we have seen, helps one domestic industry at the expense of others.

Trade wars are not wars with foreigners; they are essentially civil wars.

New Zealand is a small country and has to take the rest of the world as it finds it.

We would be better off if other countries dropped their trade restrictions. But we shoot ourselves in the other foot if our response is to add trade barriers of our own.

All we do is tax our exporters and make it even harder for them to compete in protected markets overseas.

Let me finally say that there is nothing special about tariffs or import protection.

The same arguments apply to any industries with protected or monopoly positions.

Farmers have got over arguing for controls on imports of margarine and synthetic carpet, but they still regard their monopoly producer boards as sacred cows.

But why should farmers have large amounts of capital locked up in processing and marketing activities and receive price signals which bear little direct relationship to the value of their product?

And, when we look beyond the narrow interests of producers, why should New Zealand consumers not be able to buy apples and pears from anyone who wants to supply them?

And why should the Apple and Pear Marketing Board not have to compete with Dole, or the Dairy Board with Nestles?

These questions deserve more than a knee-jerk response.

It would be sad to see farmers cling to these vestiges of protectionism in New Zealand, and sad for the economy to continue to forgo competition and innovation in agricultural marketing.

Mr Chairman, tariffs do not create or protect jobs.

In fact, they cost jobs, by reducing competition, and making the economy less innovative, flexible and dynamic.

There is no trade-off between locking people up in sheltered industries and the numbers on the dole; in all likelihood we end up with higher dole payments.

Protection is about lifting one industry relative to another, and you can't artificially lift them all.

Protection to all industries is equivalent to protection to none.

This is an absolute truism in economics, understood by all reputable economists for over 200 years.

In many ways I am astounded that this debate is taking place today.

The protection debate in New Zealand and Australia was over several years ago.

A recent official Australian report has proposed the scrapping of all Australian tariffs by the year 2000.

The Manufacturers' Federation seems to have been taken over by the economic troglodytes. Some years ago its former Director-General, David Walker - by no means a rampant free-trader - accepted that Manfed could not argue that protection adds to the number of jobs available.

The "most they could claim", he said, "was that if protection were removed very rapidly, there would be some unemployment in the affected industries."

I cannot understand why the current Manfed hierarchy are so determined to put their heads firmly back in the sand.

They are certainly not serving the interests of manufacturing exporters, manufacturers who are lightly protected on the domestic market, or manufacturers who have faced up to the restructuring task in recent years.

There are many good manufacturers in New Zealand, and they are ill-served by concepts equating them to welfare beneficiaries.

Mr Chairman, I rest the case of a reformed protectionist.