Goodbye 'Made In Australia'?
The case for introducing a floating minimum tariff regime

By Richard Nankin August 2011

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Part 1: The Real Costs of Zero Tariffs

Over the last 25 years Australia has had a wide-open door to imports. Ours is the leading country in the developed world when it comes to low tariffs, applying zero tariffs to the vast majority of imported goods and services[1].

Although motivated by good intentions, I contest that this Zero Tariff policy is bad policy, as it takes no account of the substantial negative costs and downsides of allowing free or almost completely free access for most imported goods and services. Zero Tariffs in this paper refers to and encompasses all tariffs greater than zero but below 5%.

Anyone challenging Australia's Zero Tariff regime is howled down by both sides of mainstream politics and the mainstream media as "protectionist", as if this label is sufficient to dismiss any questioning of our tariff regime out of hand. Almost all political and economic commentators accept without question our policy makers' statements that we *only* benefit from having virtually unrestricted imports.

In order to bring some balance to what has for the last 30 years been such a one-sided policy debate in Australia, we need to consider not just the benefits but also the real costs and other negative effects on Australia of having such an exceptionally open door to almost all imports. I contest that by applying Zero Tariffs to imports we effectively provide a price advantage for imports against locally made competing goods, in effect disadvantaging locally made products in favour of imports.

In fact, Australia bears a range of cost burdens when imports win out over locally made products. These include loss of local jobs, skills and whole industries, increased pollution and health costs as well as a substantial loss of revenue for government. Higher local interest rates, the consequence of decades of balance of trade deficits, penalises all Australians. These are all real consequences of our Zero Tariff policy.

Counting The Costs of Imports

When locally made goods and services are replaced by imports, there are at least three main categories of negative costs directly borne by the importing nation: lost jobs, lost government revenue and lost national wealth.

1. Lost Jobs

The loss of local jobs and demand for local services is the cost borne by the country's workers and producers. Losses extend from everyone engaged in running the businesses and their employees, to those supplying local materials and inputs and other supporting services, all required to produce goods locally.

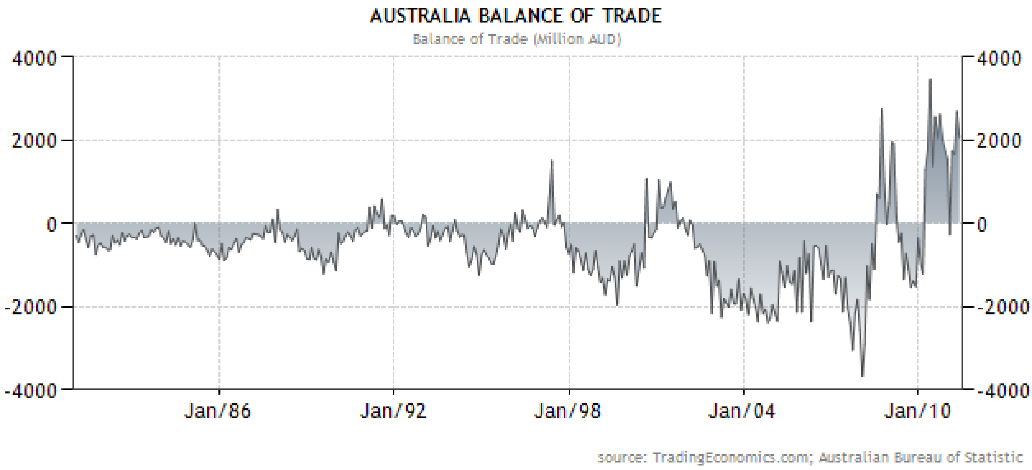
2. Lost Government Revenue

The second cost, related directly to the first, is lost income to governments. Because imported goods haven't consumed local inputs, services and labour, so the importing country's local, State and federal governments lose out on all the taxes, rates and fees that local production would otherwise have paid along the way. Not just the PAYG taxes for the workers and others both directly and indirectly employed, but also the local council rates on the factory buildings and offices, the taxes on company profits and on the inputs, the communications, printing, packaging, energy, transport charges, plus the fuel taxes and so on that are generated when things are made locally.

3. Lost National Wealth

The third cost burden when imports replace local products is the cost to the nation of actually paying for the extra imports. In order to pay for more imports we must either sell more exports or be compelled to borrow more foreign currency.

Beginning in the 1970's was a period in which Australia unilaterally lowered and in most cases, eventually completely removed, import tariffs. This move ushered in a period of unrelenting growth in imports, both in real dollar value and as a proportion of Australia's overall consumption. The result has been Australia's accumulation of an immense foreign debt. Our nation's enormous net overseas debt, accumulated mostly in the 25 years prior to the recent minerals boom, is currently around A$600 billion, which is around $30,000 for every man, woman and child in the country. Our overseas debt requires Australia to make over A$2 billion a month in payments, just to service the interest bill[2]. Using Australian Bureau of Statistics data, Fedec and Sousa (2011) show the patterns of Australia's balance of trade since 1971[3].



When imports replace locally made products, the consequent costs to the importing country in lost jobs, lost government revenues and lost national wealth are all real.

Our High Foreign Debt

In Australia's case only a small proportion (around 7%) of our huge foreign debt is government debt. For other big debtor countries like Greece, Ireland, Portugal, Spain and the US, in order to cover budget deficits a large part of their overseas borrowings were made by their governments. The vast majority of Australia's overseas borrowings are private, made by Australian companies to pay for imported goods and imported capital. Nevertheless the huge foreign debt we have accumulated is one of the big negative costs of Australia's open door policy on imports.

Cascading Consequences - Lost Industries, Lost Skills, Lost Local Inputs

Another long-term cost when imports come to dominate a major sector of the economy is the reduction in the utilisation of local components and support services. As local industries decline in the face of cheap imports, there is a reduction in markets for remaining service providers and component suppliers to that declining local industry. This reduces the efficiency and increases costs for the remaining local producers. Nowadays if you want to make something in Australia, many of your manufacturing inputs and components will most likely need to be imported.

For example, following the closure of Ajax Fasteners - the last large-scale nut and bolt foundry in the country, founded in 1904, closed in 2007. Anything still being made in Australia that requires nuts and bolts now has to use imported ones. The last tyre factory, Bridgestone in Adelaide has recently also closed. Many such sad stories apply throughout almost every corner of Australia's once large and proud manufacturing and food processing sectors. As Australia's indigenous manufacturing industry continues to decline, whole skill sectors are being lost. A prominent example is in tool making, a sector critical to all types of local manufacturing.

Where did our Zero Tariffs policy come from?

Nowadays within Australia the advocates of the ideology of "free trade, zero tariffs and the level playing field" dominate the public debate. This was not always the case. The journey towards bipartisan support for this ideology from both the Labor and Liberal/National parties began in 1973, when long-standing and substantial import tariffs on textile, clothing and footwear imports were unilaterally reduced by 25% by the Whitlam Labor government. In the face of stiff competition from cheaper imports, the slashing of these high tariffs precipitated a rapid decline of the local textile, clothing and footwear manufacturing industry.

The lower prices to consumers for basics like socks, underwear, clothes and shoes that quickly flowed through following these tariff cuts generated enough public support to effectively counter the voices of those involved in the local industry, workers and bosses, who lost out as a consequence. The Labor government told its union support base that the price reductions resulting from slashing import tariffs were particularly beneficial to those on lower incomes, even including the masses of newly unemployed textile and footwear factory workers!

The tariff cuts for textile; clothing and footwear were claimed by the "anti-protection" advocates to be a success and an overall benefit to the country. This apparent success generated advocacy from some of our politicians, supported by the retail sector, importers and neo-liberal economists, for more extensive reductions in restrictions on imports. The push to remove any and all import tariffs was promoted at the time by its advocates as both providing lower prices for consumers, as well as strengthening Australia's position in international trade forums as a leading advocate for freer trade and for real reductions in tariffs and other restrictions to trade. By the year 2000 the perceived public acceptance of reductions in import tariffs and quotas motivated Australia's Federal government to propose further cuts, supported by a Productivity Commission which recommended introducing zero tariffs on the majority of imported goods[4]. The assumptions and predictions made in this Productivity Commission's report were all made at a time when the Australian dollar was trading at close to historically low levels, around US $0.55.

The rapid decline in the textile, clothing and footwear industries following the first big tariff cuts in the mid 1970's was indeed a taste of what was to come for the rest of Australian manufacturing and food processing industries. The across-the-board elimination of most remaining import tariffs has been a major contributing factor in the period since, that has seen the closure of the vast majority of Australia's manufacturing, food processing and other value-adding sectors – almost all gone out of business or in foreign hands, in the face of an ever rising A$ and the cheaper imports this has brought.

Sousa and [4]

What remains of the manufacturing industry that survives in Australia today, in order to compete with cheap imports, is forced to outsource supply of many of the components, the labour intensive making-of-things, to low cost offshore factories and do only the design, some of the final assembly and re-packaging locally.

Australia's *Three-Speed* Economy

We are now faced with substantial structural imbalances in our nation's economy. When we hear politicians and commentators refer to Australia's "two speed economy", they are referring only to the mining sector verses all the rest of the economy. They are not talking about the ever-worsening structural imbalances, such as the very high and ever rising proportion of goods that we purchase being imported rather than locally made, and the excessively high portion of the internal economy driven by residential construction activity.

Our policy makers do not seem to understand it is the very policy settings they support that are the reasons for these ever-worsening structural imbalances. With so much of our wealth and income invested in property, we remain dependent on overseas capital to fund the rest of our economy. Whilst the export minerals sector is booming, the retail, construction and agricultural sectors are stagnant or growing much more slowly. At the same time, in the face of a skyrocketing Aussie Dollar and the ever-cheaper imports this brings, we are witnessing the rapid demise of what remains of our Australian manufacturing and food processing sectors and in the services sector, a collapse of overseas tourism and the overseas student education industry.

High Interest, Higher Aussie $, More Imports: A Very Non-Virtuous Cycle

Australians are in fact already paying dearly to fund our seemingly insatiable desire to consume more imported goods and capital. As a direct consequence of more than 25 years of "balance of trade deficit", all Australians have become used to paying between two and four percent higher interest rates than most of the rest of the world pay for their mortgage borrowings. As we are paying global lenders a significantly higher return on funds lent to Australia than to the rest of the world, so Australians are forced to pay much higher local interest rates than most of our overseas competitors. The significantly higher cost of borrowing money in Australia is often mentioned in public debate. That our high overseas debt is a primary and underlying reason for these high local interest rates, is rarely made clear.

In response to the Global Financial Crisis (GFC) government treasuries all over the world slashed interest rates. The US, European and Japanese treasuries dropped their rates to almost zero, to from 0.1% to 0.25%. Australia's Reserve bank dropped the local rates too, down to a low of 2.25%. Now things are edging back to stability, government-bond interest rates in the rest of the world are hovering around 0.5% to 2.0% and are 4.75% here. Australian farmers, manufacturers and others that compete with imported products are paying minimum commercial interest rates of around 8% to 9.5% for their borrowings whilst overseas competitors are paying from below 1% to at most 3% to borrow funds for commercial purposes.

This relatively high return on funds encourages foreigners to invest in Australia. This is especially true today, with the US and other first world countries' economies performing more weakly than ours. Critically, the current extreme distortion in our "Terms Of Trade" resulting from the minerals boom also encourages foreign investors to see Australia as a safer bet than other countries. *The result is that our Aussie Dollar is being bid up, rising substantially above its intrinsic relative value.* In the last four years, since just before the GFC began, the A$ has been bid up by overseas investors from below US$0.77 (Jan 2007) to over US$1.05 (April 2011) - a rise of 40% in relative value.

As an ever-rising A$ brings cheaper imported goods and forces up the price of our exports, so it acts to reinforce the trend for imports to keep increasing their market share in Australia whilst our locally made products continue to lose market share, both locally and as exports. This ensures our structural trade deficit, that is our trade deficit for everything but minerals exports, continues to worsen. As we continue borrowing overseas and selling off locally owned assets to foreign investors to pay for the historical trade imbalance, so we remain locked into paying relatively high interest rates. Whilst imports surge, our nation continues to be captive to foreign lenders. Stuck with interest rates higher than most of our overseas competitors, we are caught up in a very non-virtuous cycle.

Part 2: The Myth of The Level Playing Field

It is not just lower wages and lower costs and standards of living that enable overseas producers to undercut locally made goods on price. Whilst we continue to ignore that the so-called level playing field is a myth, we continue to provide imports with unfair advantages over our locally made products.

The Cost of Capital – What Level Playing Field?

Today the effective interest rates in Australia for local businesses are from *at least three times to more than ten times* the interest rates being paid by most of our international competitors. Being locked into paying such a relatively high price to borrow funds is a huge disadvantage for all local Australian producers trying to compete with the rest of the world.

There is clearly no level playing field when it comes to the 'cost of money' in different countries!

Environment, Health & Safety - What Level Playing Field?

After a litany of contamination, substitution and environmental scandals in Vietnam, China and Thailand over recent years we must acknowledge that many of the countries we import from certainly cannot claim, like Australia, to have a reputation for "clean and green" production methods, let alone reliable food quality control or health standards! All of these countries have booming exports of both fresh and processed foods into Australia.

Unfortunately, this poor health record applies not only for foodstuffs but also for a large proportion of the manufactured goods we nowadays import from these countries. It is the workers, the communities and the environment in these countries that suffer the costly burden of higher environmental pollution and more hazardous work conditions, compared to Australian made goods.

Australia applies world's best practice, or close to it, in most areas of environmental regulation and health and safety standards, whilst for many imports, substantially lower standards are applied in the source country than apply here. This gives these imports a significant and unfair cost advantage compared to things made in Australia. It is both unfair to ignore the price advantage and dangerous to ignore the risks to public health, worker's health and safety and the environmental damage which result as a direct consequence of importing goods produced in countries where substantially lower production standards and working conditions apply than for Australian made products.

There is definitely no level playing field for Australian producers competing with imported goods when it comes to quality controls or to meet the costs of compliance with local environmental, health and safety standards!

High Tariffs, Quotas and Subsidies - What Level Playing Field?

High tariffs, import quotas and local subsidies are in fact applied by many of the same countries we import goods from, to penalise or restrict our Australian exports. Our major trading partners China, Japan, Europe and the US commonly charge high import duties, at rates of 35- 40% and often much more, apply restrictive quotas and/or provide their local producers with substantial direct subsidies in order to protect them from competing goods coming into their countries from Australia.

To add insult to injury, many of our so-called "Free Trade Agreements" have opened the door even wider to imports from these countries. These FTA's have allowed these major trading partners unlimited access to Australian markets whilst at the same time allowing them to continue to apply their high local subsidies, high tariffs and restrictive import quotas. These all act to significantly limit the volumes of goods from Australia that are allowed unrestricted access to markets in these countries.

For example, a report "Agriculture and the WTO" from our own Australian Government Department of Foreign Affairs and Trade states:

> " **World Agricultural Markets – unfair and distorted**
>
> Australia provides competitive agricultural produce to world markets without the high levels of financial support, protection and other trade-distorting practices used by many other countries to prop up their agricultural sectors.
>
> Australia is one of the world's most efficient agricultural producers, as indicated by the Producer Subsidy Estimate (PSE) produced by the OECD. The PSE estimates the percentage of farm income arising from government support. Australia's PSE for 2005-2007

> was only 6%, the second lowest among OECD countries after New Zealand. In contrast, the 2005-2007 PSEs showed the highest levels of assistance in three of the highest per capita GDP economies in the world: Norway (62%), Switzerland (60%) and Japan (50%). This means that farmers in Norway and Switzerland received nearly two-thirds of their income from government support, and Japanese farmers received over half their income from government support. The average PSE for other OECD countries for the same period was 26%.
>
> Globally, agricultural trade is the most distorted sector of trade in goods. It is characterised by very high tariffs and high levels of government support to primary producers. Average tariffs for agricultural goods are more than 3 times higher than for non-agricultural goods — some agricultural tariffs are as high as 800%.
>
> In no other area does domestic support distort international markets to the extent that it does in agriculture, with over US$268 billion in 2006 provided in support and protection for agriculture by rich developed countries worldwide.
>
> Export subsidies, the most trade-distorting form of subsidies, are tolerated in the agricultural sector — in contrast to other sectors, such as manufacturing, where they have long since been prohibited.
>
> Australia has reduced its own tariff levels on agricultural and food products since the early 1970s through a series of across-the-board measures and as the result of inquiries into particular industries and commodities. General tariffs have been phased down to 5%** and assistance to import-competing industries has been substantially reduced. Millions of farmers around the world, including in developing countries, are unfairly disadvantaged in the world market...."

** Since this report was originally published we have dropped our General Tariff to zero for most agricultural goods imports.

Whilst the US is not singled out in the above quote, it also pays billions of dollars of subsidies annually to its agricultural producers.

Australia should continue challenging all the countries in the world with tariffs higher than 10% to move to lower their tariffs, to reduce their import quotas and other unfair restrictions on imports, and their substantial direct producer subsidies.

When it comes to government restrictions and regulations on imports, there is certainly no level playing field when we try to sell our exports to the rest of the world!

Currency Exchange Rates – What Level Playing Field?

Whilst Australia's government and Reserve Bank claim they have no legitimate role in actively influencing our floating exchange rate, governments of all our most significant trading partners actively and deliberately control or manipulate their exchange rates to restrict imports and make their exports cheaper. China, our most significant export market and largest trading partner, is consistently singled out by analysts as guilty of keeping their exchange rate artificially low. Most analysts agree the Chinese currency is significantly undervalued, by between 20% to 40%, or possibly even more.

Japan, our second largest trading partner, recently spent many billions of dollars of their government reserves in international currency markets in an attempt to reduce pressure on their rising exchange rate. Japan's government bond rate is zero%! As noted earlier, most of our major trading partners have set Government bond rates at a tiny fraction of the current 4.75% interest rate being paid by Australia's Reserve bank, in attempts to both stimulate their internal economies as well as boost exports by keeping their exchange rates as low as possible.

There is certainly no level playing field with our major trading partners when it comes to government interference and manipulation of currency exchange rates to keep our imports out and make their exports more competitive!

Part 3: The Case For Modest Minimum & Floating Tariff

The Problem with High Tariffs

The argument of the "anti protection" protagonists against high tariffs, quotas and subsidies has some credence. High import tariffs - that is rates significantly above 10%, have historically produced some negative impacts. The two most serious negatives are, firstly, relatively high prices to local consumers, prices significantly above the global average price for those goods; and secondly, the insulation of local producers from international competition that may improve their performance and product quality[4]. High tariffs may lead to reduced product range and choice for local consumers. High tariffs do indeed act as an impediment to fair competition from imports.

The "All Tariffs are Bad Tariffs" Myth

The World Trade Organisation, whose primary aim is to encourage international trade, requires all member nations to justify any import quotas and tariffs that restrict free trade, or suffer penalties. Crucially, the WTO defines import tariffs above 5%, rather than zero%, as a potential restriction on free trade[5].

The Zero Tariffs = Free Trade Myth

Regulators of international trade recognise that applying zero tariffs in effect can provide imported goods with a price advantage over anything locally made. Australia's policy makers consistently misinterpret free trade as meaning 'zero tariff'. As there is international acceptance that zero tariffs can act to discriminate *against* locally made goods and may actually *distort local markets in favour of imports*, there seems to be no justification for Australian policy makers to stay glued to their current zero tariffs ideology.

Australia has over the period since the late 1970's been a leading voice in international forums for global moves to reduce protectionism by removal of high tariffs, restrictive import quotas and producer subsidies. We can continue to pursue a leading role in the world as a genuinely free trading nation whilst charging an across the board 1% to 5% tariff on all imports. There is no reason for Australia to stick with its current zero tariff policy in order to retain international credibility as a free trading and low-tariff nation. The rest of the world accepts modest import duties of up to 5% as low rates, rates that do not unduly restrict or distort trade.

What a naïve and blinkered lot virtually all Australian economic commentators, regulators and politicians are. They insist on remaining stubbornly glued to the "Level Playing Field" myth and an "All Tariffs are Evil" mantra, ignoring the reality of the actual behaviour and standards of all our major trading partners.

To help rebuild our own local manufacturing, food processing and other import replacement sectors, to help offset some of the unfair cost advantages of imports produced in countries with lower health, safety and environmental standards, to help counter the unfair high tariffs, quotas and exchange rate manipulations of most of our major trading partners, to help redress the disadvantage of the high cost of capital for local producers as well as to generate government revenue when imports replace local production, Australia can move from its' current zero tariff position, replacing it with a modest, floating tariff regime and still retain global leadership in free trade and tariff reform.

Floating Dollar / Floating Tariff?

The overwhelming majority of Australian imports, as well as our rapidly growing on-line purchases, have no tariff applied at all. Given the volatility we have experienced in recent years with our floating exchange rate and in the value of the Aussie $, and with the Aussie $ today trading at record high levels, it makes good sense to consider introducing a floating tariff regime. Such a variable rate of tariff, with the rate moving in increments as the A$ rises and falls, has distinct advantages over traditional fixed rate tariff regimes. This variable import tariff could range between, say, a minimum rate of 1% and maximum rate of 5%. The highest level of 5% tariff could be triggered to apply when the A$ rises to high levels above, say, US$0.99 whilst the lowest tariff level of 1% applied when the A$ falls in value to, say, US $0.75. Within this range, movements in such a variable "floating tariff" rate could be in half a percent increments, triggered with every three cents rise or drop in the exchange rate, as follows:

Exchange Rate: A$ vs. US$	$0.75	$0.78	$0.81	$0.84	$0.87	$0.90	$0.93	$0.96	$0.99
"Floating Tariff" Rate	1%	1.5%	2%	2.5%	3%	3.5%	4%	4.5%	5%

Given the volatility of the A$, such a variable rate tariff regime, a "floating tariff" would help to smooth out volatility in prices of imported goods. By providing currency traders with thresholds that trigger tariff rate movements it may even of itself also act to help keep our currency more stable, reducing the extreme volatility in the value of the A$.

The Carbon Tax / ETS Debate: A Great Big New....Distraction?

The 40% rise in the value of the A$ over the last three years has, over this brief period, made imports 40% cheaper and our exports 40% more costly for overseas buyers. Meanwhile…public fear is being encouraged by those opposed to the proposed ETS/Carbon Tax. The greatest hysteria is coming from the lobbyists and political advocates for our carbon-intensive import competing and exporting industries.

Carbon intensive industries are seeking exemption or compensation from having to pay a modest price for their carbon pollution, an impost projected to add (at $23/tonne) around 0.7% to their costs**.** Their advocates give the impression the sky will fall in, claiming the enactment of the proposed ETS/Carbon Tax will destroy these industries' ability to compete internationally.

These claims for the dire consequences of introducing a new Carbon Tax/ETS seem ridiculously misplaced when compared to the almost total silence over the past three years during which we have seen an absolutely massive and disastrous 40% decline in the international competitiveness of <u>all</u> Australian exporters as a result of a skyrocketing 40% rise in the value of the Aussie $!

The last six months in particular has seen the anti ETS/Carbon Tax hysteria dominate mainstream politics. The rise in the Aussie $ over the same period, from around US$0.96 in late 2010 to over US$1.05 by mid 2011, has until recently hardly been more than mentioned in passing, even though the exchange rate movement over the last six months has meant a further decline in international competitiveness of around 10% for all Australian exports. This is around *fourteen times* the *estimated 0.7%* cost impact of the proposed “Great Big New” Carbon Tax on carbon-intensive exporting industries!

Minimum Tariffs: A Great Big, New ..... Opportunity!

Today more than ever before, Australia needs policies that encourage a shift to replace imports with more things that are locally made. Australia needs to move on from its current unwarranted, costly and irresponsible zero tariff policy. It is time for an informed debate over the level and structure of an across the board ***modest minimum tariff***.

At this time of a record high A$, exceptionally cheap imports and with inflation under control, it is an opportune time to refine the current zero tariff policy by introducing an across-the-board floating tariff of 1% to 5% on all imports. Australia would still remain within the WTO definition as a free trading nation whilst providing a significant beneficial impact for our Australian producers as well as a new source of revenue for the government.

Even at the low initial rate of 5%, implementing this new floating minimum tariff would provide a massive additional multi-billion dollar income stream for the Federal Government, given the huge value of what are currently tariff-free imports as a portion of our total consumption,

Rather than cause sudden substantial price increases, the effect, if introduced now, would be to *offset to a modest degree the reductions in the price of imported goods*. If or when the minerals boom falters or for any other reason the Aussie $ falls in value, rather than keep rising, any inflationary pressure from this new minimum tariff would be cushioned with a “floating tariff” system.

This is a tax reform too substantial in its impact on government revenues to be introduced without taking the opportunity of reducing or removing some of the litany of inefficient and/or regressive taxes identified in the Henry Tax review such as payroll taxes, negative gearing for highly priced investment properties etc. This new revenue stream could not only hasten bringing the federal budget back into surplus, it could also, for example, help to fund the long overdue “Dentacare” national dental insurance scheme, provide for much needed increases in funding for disabled people, for mental health services and aged care. It could help pay for “Nation Building” infrastructure, for projects such as the NBN, the undergrounding of power lines, High Speed Passenger Rail and upgraded national rail freight networks.

A new floating tariff regime would thus complement any new Resource Rent Tax and would sustain government revenues for “Nation Building” projects well beyond any decline in income from a Resource Rent Tax if/when the minerals boom falters.

A Carbon Tax Additional Tariff?

Acknowledging the non-level playing field in world trade, the general application of such a modest new floating tariff regime will help to offset some of the unfair advantages many imports have over locally made goods.

For imports from countries without a Carbon Tax/ETS competing with Australian made goods, the introduction of a broad ranging Carbon Tax/ETS here in Australia would be an additional advantage in lower costs for these imports.

There is a good argument for applying an additional tariff of around 1% for all imports from countries that *do not* have a Carbon Tax or similar ETS system. With a Floating Tariff regime this would mean all imports from these No Carbon Tax/ETS countries would have a floating tariff applied ranging from a minimum of 2% to a maximum 6%.

Applying this additional 1% to our floating tariff rates would not only serve to cushion or compensate local producers from the additional unfair cost advantage for imported goods from countries with no Carbon Tax/ETS, it would also act as a real incentive for these countries to join with Australia and bring in their own Carbon Tax/ETS. This initiative, whilst relatively modest in terms of additional costs to consumers, could be significant in terms of the precedent it sets for global negotiations on reducing greenhouse gas emissions.

A Very Lucky Country....for now

If not for the minerals boom, Australia would today be in a far more parlous economic state following the GFC. The current minerals boom resulted in a rare event, a turnaround in Australia's monthly balance of trade, just as the GFC was in full swing. It is the perception of global lenders of Australia's continued capacity to keep up payments on the interest bill on our overseas borrowings that has both protected Australia from the worst during the GFC and sustained the rise and rise of the Aussie dollar.

Minerals booms have historically always been cyclical. The current minerals boom is expected to end within two or three years at most, as increased global production capacity in mineral mining and processing come on line. Whilst the minerals boom lasts, we should take this historic opportunity to begin to fix the broken import-replacing sectors of our economy, namely manufacturing and food processing.

Whilst replacing the current zero tariffs system with a new across the board low floating tariff regime is not by any means a complete solution to the problems our locally made products face, it will be a very useful and substantial starting point.

We can reduce the international speculation bidding up the A$ if we use the current minerals boom and consequent current account surplus as an opportunity to *actually pay down our foreign debt.* My floating tariff proposal would assist in this process. If we can reduce the magnitude of our longer-term dependency on foreign borrowings this would act to reduce the pressure for Australian borrowers to pay significantly higher interest on all that foreign capital than the rest of the worlds' borrowers are paying. If we can begin to do this, a primary factor driving a high A$ will be reduced. As a significant proportion of our foreign borrowings are nowadays written in short-term bills, any change in the quantum of borrowings Australia needs to make should translate quickly into lower rates as the reduced borrowings are refinanced.

A Truly Virtuous Cycle

To the extent this new low floating tariff regime is effective in encouraging a shift from imports to more of our consumption coming from locally made goods, any consequent reduction in the amount of import tariff revenue flowing to Government will be more than offset by increases in the normal tax income governments will collect from the newly created local jobs, the extra company profits and other new local revenues being generated – a truly virtuous cycle.

Furthermore, a rebalancing of our trade towards more exports and less imports and any consequent reduction in our foreign debt that this new low tariff regime would enable also has the potential to reduce the high interest rate regime that today burdens all Australians.

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