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‘FREE’ TRADE: NOT FREE FOR PRODUCERS

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‘FREE’ TRADE’: NOT FREE FOR PRODUCERS

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INTRODUCTION

Since European settlement, Australia’s rural producers have been proud of their role in supplying food and fibre for Australian and global customers. Over the past couple of decades, that mantle of respect as providers for a metaphorical ‘hungry world’ has been squelched. The national policies of free trade and free foreign investment which have been introduced with ever more purity since Paul Keating took the treasurership in 1983 have placed farmers and graziers at the mercy of opaque international agents and negotiators and in so doing they have also undermined Australia’s self-reliance in supplying its own food.

Few national policies have generated as much hostility towards ‘urban elites’ as free trade has done; and few limbs of the suite of economic rationalist ‘reforms’ have contributed as much to the rise of nativist politicians who have concurrently carried sectors of the electorate into other populist anti-science, anti-environmental territory. In other words, the grievance that rising inequality is generating has free trade and free foreign investment at its foundation.

Since 1983, Australia has been one of the loudest advocates for eliminating domestic and international constraints on trade, making repeated commitments under the aegis of the General Agreement on Trade in Services (GATS), now the World Trade Organization (WTO). The commitments go way beyond simply removal of tariffs on imports, to opening Australia’s borders to service providers and investors in agricultural industries, even to purchasers of rural land.

Governments in the 1980s and 1990s promised that trade liberalisation and micro-economic reform would transform Australian exporting industries into competitive successes, especially in sunrise industries. Today Australia is as dependent upon exports of unprocessed raw materials as ever, having knowingly shut down large sectors of manufacturing, having outsourced call centres to developing countries and having sold productive assets with their flows of profits and dividends.

This paper explains some of the most glaring defects in Australia’s trade policy and how the Australian Government is working against the interests of the nation’s producers of agricultural commodities. The paper proceeds by chronicling some mileposts; by examining evidence from various quarters; by evaluating orthodox trade theory; then by some analysis to link evidence, theory and policy. Any robust policy should sit within a conceptual framework that includes a body of evidence, a coherent theory and disinterested logical analysis.

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‘Free trade’ in the text sometimes includes ‘free foreign investment’ and unrestricted ownership of land by foreigners, as well as free trade in goods and services, depending on the context.

The paper deals with trade in manufacturing and services that are not directly relevant to the pastoral industry, for three main reasons. First, a focus on commodities – for example, beef or wool – would rapidly drill down into particulars such as quotas, tariffs and special clauses in preferential trade agreements that do not challenge the assumptions behind free trade as a principle. If the theory behind free trade is false, no profusion of special arrangements will render the regime satisfactory. Second, trading arrangements between nations are a complex of reciprocal deals; for example, in the Australia-US Free Trade Agreement, Australia traded away 20 years of its sovereignty in intellectual property partly in return for a small concession for sugar and a possible special deal for beef 18 years later. Third, open borders compromise economic relations throughout the economy, including by reducing the amount of taxation revenue available for public utilities in remote areas. The free-trade edifice needs to be critiqued in its entirety.

The paper does not argue against international trade, only against unmoderated or lightly moderated trade. It acknowledges that 'free' is relative and that many conditions and restrictions on open borders remain. Nor does it plot a pathway out of our present bind, a task of unscrambling-the-proverbial-egg complexity.

Abbreviations

A-USFTA: Australia-US Free Trade Agreement
DFAT: Department of Foreign Affairs and Trade
GATS: General Agreement on Trade in Services
IMF: International Monetary Fund
UNCTAD: United Nations Commission on Trade and Development
WB: World Bank
WTO: World Trade Organization.

CHRONOLOGY

Protection in Australian history

Conflict over protectionism has been a feature of Australia's political landscape for much of the past 140 years. Federation between the six British colonies was not inevitable. They may well have remained separate, if the quarrel about protection versus free trade had not been settled (for the time being). The lopsided tariffs levied by customs houses at the colonial borders were an incentive to federate, because no other action could eliminate that nuisance; and they were also the greatest obstacle to federation. The township of Oontoo at the border in far south-western Queensland attests to that history: it had a population of 14 in 1897 but the customs house closed in 1902[i], leaving the desert to reclaim the ruins.

Victoria passed legislation imposing tariffs in 1866, enabling it to build a competitive edge in manufacturing, a primacy which survives today, although weakened. In 1908 Victoria's protectionism became Commonwealth policy and became orthodoxy, until the neo-classical pro-market school gained control of mainstream economics in the 1970s and free-trade New South Wales gained control of the Treasury in 1983. Yesteryear's orthodoxy is now heresy, for both major parties have endorsed extensive liberalisation of trade and investment and both supported the signature Australia-US Free Trade Agreement (A-USFTA). Bipartisan support continues to this day.

Economist and grazier Ben Rees has expanded on this brief history in a personal communication dated 24 November 2020[ii].

The reasons advanced a century ago for the tariff show how far modern Australia has departed from the earlier consensus as to where the public interest in policy lies. Then, protection was seen as allowing manufacturers the financial space to innovate and to develop competitive muscle; nowadays, tariffs are seen as obstructing innovation and competitiveness. Then, and especially during the World Wars, tariffs were seen as a tool for achieving self-sufficiency in manufactures in an uncertain and hostile world; nowadays, tariffs are seen as an obstacle to a US-led global economy. Then, tariffs were seen as enabling manufacturers to pay a `fair and reasonable wage' to employees — the 1906 *Excise Tariff Act* even gave that link statutory force; nowadays, neo-liberal economists advocate to abolish tariffs to force wages and conditions downwards – though it is more delicately termed 'to increase productivity'.

A century ago it was widely held that competition with imported products of underpaid foreign workers was unfair. Yes, there was a racist edge to this viewpoint, but it was also based upon the conviction that workers were due a fair reward for their labour. Now, trade enthusiasts applaud the bargains for consumers by undercutting Australian labour through outsourcing goods produced overseas by near-slave labour.

From the 1980s

In 1983, Paul Keating as a reluctant Treasurer immersed himself in Treasury thinking which by that date had moved to an economic rationalist orientation with free-trade being a major limb. Keating became an effective evangelist for its unambiguously free-trade policies. Treasury and the parliamentarians had also been the subject of continuous drip feed pressure from a group of 'dry' free-market members notionally led by Liberal MP and Modest Member Bert Kelly[iii].

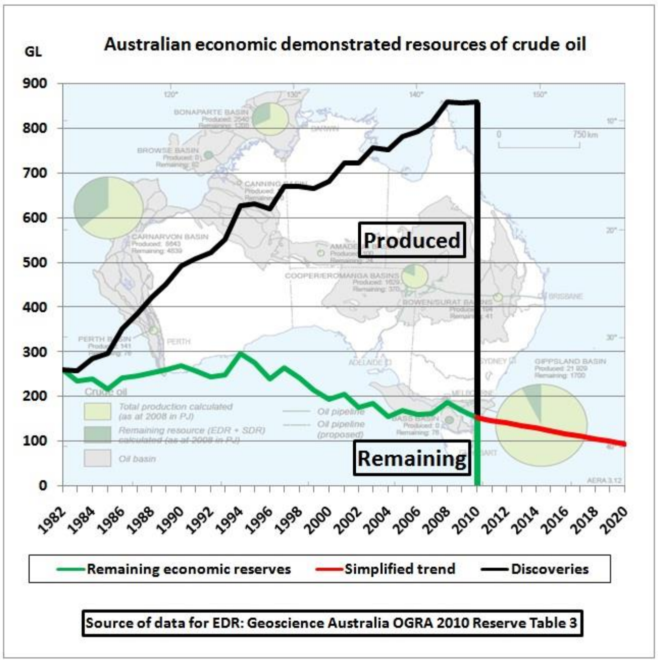
In July 1987, the former Department of Foreign Affairs was amalgamated with the Department of Trade[iv], with the free market enthusiasts in Trade prevailing over the diplomats and policy generalists in Foreign Affairs through the resulting departmental restructure and collision of cultures. No longer was trade policy viewed as a tool to advance the national well-being. Conversely and perversely, the well-being of Australia's producers and consumers became subordinated to the ideological pursuit of 'free' trade, with 'free' being defined by the nations who wield the most trading power.

The pre-eminence of the free-trade lens over a more nuanced foreign policy is in plain sight in the 2003 foreign policy manifesto *Advancing the National Interest*, reflecting the election of a Liberal/Coalition government in 1996 (Edwards 2002), and in which Australia's national interest on a global stage is conceived through the lens of trade liberalisation, a marked departure from the more nuanced 1997 equivalent *In the National Interest* (the product of the previous government).

EVIDENCE

Good analysis relies upon honest treatment of evidence. By this test, many of the claims made for free trade are exaggerated, overly optimistic or plain fictional.

Results domestically have confounded predictions



Source: Matt Mushalik "Crude Oil Peak" [v]. The area between the green and black lines represents a precious patrimony that has mainly been burnt to power engines with an efficiency of less than 10%. The highest use for petroleum is as a petrochemical.

If Australia's dependency on imports of petroleum does not convince readers that our economy should move as quickly as possible to localising supply chains, then the burgeoning foreign debt should do so. If that doesn't, the outcomes of recent free trade agreements should cause deep reflection. If that doesn't resonate, then the anaemic graphs for economic growth and percentage utilisation of the workforce (covered by other papers in this series) should do so.

First, our rising dependence on imports of petroleum (crude oil) and refinery products. Australia's dependency on long international supply chains is economically myopic. Agriculturalists in remote Queensland should be alarmed. Some statistics[vi]:

- Stocks of diesel in October 2019 covered consumption for only 18 days
- Stocks of automotive petrol in October 2019 covered consumption for only 25 days
- About 29% of Australia's petrol imports in October 2019 were shipped from South Korea, through the contested South China Sea
- Only 24% of refinery inputs in October 2019 were from indigenous sources of petroleum
- Australia's indigenous production of petroleum in 2020 is about one quarter of its 2000 peak. Then, Australia was approximately self-sufficient; now it is about 20% self-sufficient[vii] and heavily dependent upon South-east Asia which passed its peak production in December 2000.

This does not mean that Australia would have 18 days, 25 days et cetera to adjust to a supply disruption. Even the rumour of a supply disruption would lead to panic buying and rationing; supply to remote towns could halt overnight.

Oil vulnerability is a large issue that should be of major concern to remote pastoralists in its own right (Gutteridge 2007). In this paper it is mentioned simply to urge rural and remote Queensland to promote self-sufficiency so that the communities are not dependent on diesel fuel to truck or rail food and household consumables from the coast. It ought to be possible, for example, to replace softwood timber shipped from New Zealand or hardwood timber from tropical rainforests in Papua New Guinea with local forest products. Rural leaders should also advocate for electrification of the vehicle fleet in addition to substitution of renewable for coal-fired generators.

Second, the debt. Mainstream economists tend to be unconcerned about the private debt owed to foreigners, and more critical of public (fiscal) debt. In fact, this is the reverse of a logical position. Fiscal debt can always be covered by government fiat. Private debt is covered by trading and loan raising; and if they are inadequate, *by selling assets*. The sale of income-producing assets is arguably the most regressive consequence of allowing private debt to mount.

At 30 June 2020, net foreign debt was $1.093 trillion (about 55% of total annual national production, GDP), an increase from $824,005 million in September 2013 (Coalition government elected) and $587,176 million in December 2007 (ALP government elected)[viii]. In very rough terms, the debt has been worsening by $39 billion every year since 2007, with virtually no change according to the partisan colour. The intrusion of imports into our economy has developed its own momentum and would long ago have led to a currency crisis except for the once-off export of unprocessed minerals and coal. Given that coal, $70 billion or 15% by value of exports of goods and services in 2018-19, is falling out of global favour, Australia has a looming balance of payments leak of a scale that agriculture will not be able to plug.

Third, the performance. In Australia, the Government in the 1980s and 1990s promised that trade liberalisation and micro-economic reform would transform Australian exporting into competitive success, especially in sunrise industries, but this has not happened even though there are some cases of success by individual firms.

In the first 24 months after the agreement with the USA came into operation (1 January 2005), Australia's trade deficit with the USA *worsened* by $3.25 bn (GTW 2007), confirming the predictions of the critics. So much for assumption-based economic modelling. Somebody in DFAT should say 'sorry' for misleading the public by claiming in advance that there would be a net *benefit* of $2 bn per annum after the first year.

The trading deficit with the USA has only worsened since then. From about $10 billion in 2004 to $13.6 billion in 2007 (Priestley 2008), by 2018 it had widened to $23.1 billion. (Australia's goods and services exports to the United States were $23.1 billion; imports were $50.8 billion). Some deal.

As for investment, a comparable imbalance persists. The United States is the largest and most significant investor in Australia, accounting for 27 per cent ($939 billion) of Australia's total foreign investment stock as of December 2018. This is $220 billion more than Australia's investment in the USA, even though the United States is by far Australia's largest foreign investment destination, accounting for 28 per cent (or $719 billion) of Australia's total overseas investment stock as of December 2018.

Results globally have not conformed to predictions

Engagement with the international economy has featured in the successful economic development of probably all prosperous countries, including Britain, the US, western Europe, Japan, Taiwan, South Korea — and not least, Australia. However, it has been through *managed* not unrestricted trade (TWN 2001:23,24; Fallows 1993; Ormerod 1994; Rodrik 2001; MacEwan 2002).

Even on its own terms, growth in GDP is not correlated reliably with openness of borders to trade: many growth centres would in their sunrise stages have been snuffed out in the absence of protection. Australia's infant industrial economy found its feet behind tariff fences of a kind which it now seeks to break down for all other countries including itself. Chang (2003) has explained this process, termed "kicking away the ladder".

An authoritative (though now dated) report co-sponsored by the UN Development Programme, the Rockefeller Foundation and others (Malhotra 2003) claimed that the assertion that trade and investment drive economic growth was plain wrong. "Trade expansion neither guarantees immediate economic growth nor longer-run economic or human development. Internal and external institutional and social pre-conditions largely determine whether and to what extent a country or population group benefits from trade." (2003:21). "...integration with the world economy is an outcome, not a prerequisite, of a successful growth strategy." (2003:28). "Cross-national comparisons reveal no systematic relationship between countries' average levels of tariffs and non-tariff barriers and their subsequent economic growth." (2003:29). "...no country has developed simply by opening itself to foreign trade and investment." (2003:30). "The quality of a country's public institutions is a crucial—perhaps the most important—determinant of its long-term development..." (2003:36). Also Rodrik (2001).

Evidence does not support the view that there is a direct relationship between poverty and trade. The strength and inclusiveness of public institutions is the major precondition for improving the standard of living (Acemoglu & Robinson 2012). Poverty has deepened in the poorest countries although they have opened their borders. There is nothing new about these findings: Pettman (1982) reviewed literature and evidence and found out that economic growth and free trade are correlated with increasing inequality and retarded development. Pettman's analysis is striking for its modernity: his description of the camps occupied by "marketeers" and their critics would apply today. Neo-liberal trade and development orthodoxy has held sway despite contrary evidence for more than 35 years.

Gross statistics hide local realities

It is easy to view Australia's gross balance of trade statistics and form a relatively complacent view about our export performance. Remove the export of unprocessed mineral commodities, notably coal and iron ore, and inwards migration of tertiary students, and our trade performance looks much more bleak[ix]. Ranked by value, seven of the top 10 exports in the financial year 2018-19 were one-off sales of our mineral patrimony, fully 51% of our total exports of goods and services. (The ten were iron ore, coal, natural gas, education-related services, personal travel services (excluding education), gold, aluminium ores, beef, crude petroleum[1] and copper ores). Agricultural exports accounted for only 10.2% by value of total exports and manufacturing only 8.4% (DFAT 2020).

Keep in mind that overall national or state-scale statistics obscure the effects on individuals and local enterprises which can be devastating. In a personal communication agricultural scientist David Phelps has written that "gross stats always fail to tell the full story. I can guarantee that my little home village of Rowena in Walgett Shire, in the New South Wales rangelands, felt the cumulative loss of the blacksmiths and switchboard operators acutely (and mechanics, teachers, the railway station master - after whose daughter the village is named). The loss of those jobs to automation and off-shore industry then led to loss of the local hotel, shop etc etc. Small communities with no influence face an uphill battle because the losses are hidden within overall statistics."

To economists viewing the national landscape, the rise and fall of specific industries and enterprises on account of technological innovation is on balance of no macroeconomic significance; as an example, the economy functions more 'efficiently' now that it does not rely for transport on horses or steam engines fuelled by men shovelling coal. Similarly the rise and fall of small townships is inevitable as industries change. But if there is no new industry to replace declining ones, townships in the rangelands and their inhabitants can be devastated. And this matters, because the townships support the occupation of the landscape. And this matters.

THE THEORETICAL BASIS OF TRADE POLICY

Why is a theory important? A theory links causes and effects and explains the forces at work. It builds upon insights from scholars and practitioners who are expert in the field. A robust theory will have strong explanatory and predictive power: it should explain why the previous policy settings worked or didn't work and can impart confidence that if identified preconditions are put in place, they will lead to identified outcomes. In the absence of a serviceable theory, reports tend to proclaim desirable outcomes, but with no feasible pathway to link causes with cures, problems with remedies, ideas with tools for implementation. Of course, a robust theory is not *sufficient* - innovative ideas may also fall by the wayside because of fragmented or under-resourced implementation (Edwards 2010, 2018) – but it is *necessary* for enduring success.

The intellectual case for free trade traces its origins to the theory of `comparative advantage', expounded by classical economist David Ricardo in 1817. *If certain pre-conditions are satisfied*, two countries can both benefit from trade if they specialise in manufacturing or growing those goods which they can produce most efficiently. Gains arise mathematically from the differing opportunity costs of capital within each country. For trading to be gainful to both parties, it is neither necessary nor sufficient to demonstrate 'absolute advantage' in endowment of resources or other intrinsic capacities. See Bernhofen and Brown (2018)[x] for an explanation of the mathematics.

Ricardo's comparative advantage remains at the centre of modern theories of trade, despite subsequent refinements such as the neo-classical Heckscher-Ohlin-Samuelson formulation. Ricardo's theory however rests critically upon pre-conditions additional to those common to

[1] Offset by a larger volume of imports. Australian crude is highly valued by Asian refineries because of its low sulphur content and viscosity.

mainstream economics generally. (Trade theory shares a theory of micro-economics with other branches of economics). Let's examine several of the trade-specific assumptions.

Capital is not mobile across international borders

For capital, the assumption of immobility manifestly does not hold any longer. Liquid money chasing fractions of a percent advantage is transferred around global financial markets at the speed of electronics, completely undermining the mathematical basis for free trade. Wikipedia reports[xi] that Ricardo himself acknowledged the essentiality of this assumption: "Ricardo recognized that applying his theory in situations where capital was mobile would result in offshoring, and thereby economic decline and job loss. To correct for this, he argued that "*most men of property [will be] satisfied with a low rate of profits in their own country, rather than seek[ing] a more advantageous employment for their wealth in foreign nations*"" "There you have it," noted Morrison wryly(2018), "Ricardo's argument—the entire theory of comparative advantage, global free trade itself—is premised on the assumption that most people love their country more than money, and will invest domestically out of the goodness of their hearts."[xii] Good luck with that.

Ricardo illustrated his theory by sketching a case study that both England and Portugal would benefit economically from trade between them if England specialised in producing cloth and Portugal in growing wine. It is noteworthy that this case study is still cited in economics textbooks as demonstration of the validity of comparative advantage. Yet even in the narrow and special case of trade between just two countries, let alone the modern globalised canvas, specialisation didn't turn out very well. Wikipedia[xiii] cites prominent economist Joan Robinson in explaining what happened:

> "…following the opening of free trade with England, Portugal endured centuries of economic underdevelopment: "the imposition of free trade on Portugal killed off a promising textile industry and left her with a slow-growing export market for wine, while for England, exports of cotton cloth led to accumulation, mechanisation and the whole spiralling growth of the industrial revolution". …Ricardo's conditions, she wrote, were not relevant to the real world. She also argued that Ricardo's math did not take into account that some countries may be at different levels of development and that this raised the prospect of 'unequal exchange' which might hamper a country's development, as we saw in the case of Portugal.

The Wikipedia entry also correctly notes that in the real world, production is not continuous and can be disrupted by chaotic events such as natural disasters. Specialisation could cripple a country that depends on imports from foreign countries suffering from, for example drought. This argument works in the converse with Australia, which in 2019 imported grain from Canada. So much for our aspirations to be the food bowl of Asia.

Other theoretical defects

The invalidity of the assumption of immobile capital alone invalidates the entire corpus of modern free-trade policy and rhetoric but it is only one of the defects. Three other invalid assumptions warrant reference here.

Employment is full. The labour or capital displaced by imports can be readily absorbed by more 'efficient' enterprises, both before and after the trade, in all participating countries. This assumption is invalid. Through mechanisation and the drift of rural labourers to the cities, most countries now have surplus labour. There is no point in saving labour internationally through specialisation, if workers at home are under-utilised. The International Labour Organization (ILO 2013) reported "an accumulated total of some 197 million people without a job in 2012", significantly, in both developed and developing economies.

Labour is not mobile across international borders. This is partly valid, for labour is inherently relatively immobile. In fact, the restrictions on free migration across their borders that all countries impose exposes the cognitive dissonance at the heart of trade policy. Australia's migration policy is schizophrenic: on the one hand, we erect barriers to free migration including by refugees who come by boat; on the other hand we welcome or try to attract migrants with 457 visas and similar instruments and smooth the pathway to citizenship for wealthy business people.

In any case, thought-labour nowadays is mobile by virtue of the Internet which allows any product of human endeavour capable of emailing to be sent from one end of the planet to another within milliseconds. Australia's trade negotiators talk up the prospect of opening other countries' borders to exports of Australian services, but forget that there are well educated English-speaking peoples in other countries with a lower cost of living eager to undercut Australian prices for professional services.

Transaction costs such as transport are negligible. Indeed, through containerisation, costs of transport have been low enough to facilitate rapid growth in trade. Transport costs scarcely feature in the trade literature, but when fuel prices rise after oil production peaks and emissions trading kicks in, this pre-condition will be unattainable. In the meantime, there are carbon-based scientific and ethical reasons for minimising international transport even if the economic obstacles are lagging.

Other defects. Alongside these basic assumptions is a requirement that countries do not run persistent trade deficits. In reality producer countries with high production costs tend to suffer enduring trade deficits funded by inflows of capital. The margins that a country can gain by internal specialisation are dissipated in servicing external debt. "Thus free trade does not make all nations equally competitive, as is argued within standard trade theory. Rather, it exposes the weak to the competition of the strong" (Shaikh 2003). Now, conversely, countries are forced to export in order to service the debt that previous unbalanced trade has created (Rees 2002).

Free trade economists slip illegitimately between classical Ricardian analysis (in which countries appear as a unit of analysis) and modern neo-classical economics grounded in the notion of the self-interested rational consumer (and in which countries have an elusive status — Jones 2002). Modern factors of production include technology, intellectual capital (Schumer and Roberts 2004) and fossil energy which do not behave in the same way as classical factories. Further, modern supply chains can obscure the identity of the country of origin or the nature of the product. Public attention was drawn in 2019 to the import of honey adulterated with fructose syrup or glucose. (As an aside, note that having cleared large acreages of the native eucalypt woodland that used to support our domestic honey industry, Australia can no longer feed itself in honey! Food bowl of Asia indeed!)

Ricardian 'old' trade theory has been accompanied in the past two decades by 'new' trade theory which admits that a country may gain from trade even if it does not enjoy comparative advantage, simply through economies of scale and niche opportunities when competition is imperfect (Palley 2003). This explanation however seems like patching old wineskins, for it contradicts the assumption of aggregation lying at the core of micro-economics (that an economy is the sum of the actions of numerous rational agents). If there is such a thing as economy of scale, then aggregation cannot hold.

Consequences of the assumptions

In science, if just one of its assumptions is found invalid, a theory collapses. At least two of the three foundations of trade theory mentioned are insupportable. Comparative advantage is a special case in which unemployment does not exist in either trading partner and capital is immobile: the pre-conditions are tight (Batra 1993). The weaknesses are not merely market failures in an otherwise sound theory, they are inherent (Keen 2001; Palley 2003). The lack of an adequate theory does not invalidate a policy or specific actions derived from it but it denies the sector an organising principle. Success or failure becomes a matter of trial and error; without a theory, policy becomes vulnerable to undue pressure from ideologues and special interests because there is no durable logic on which to ground resistance.

Etherden (2005) argued that the defects in trade theory run deeper than Ricardo, to English philosopher Bentham (1748-1832). The notion that both parties to a trade gain Benthamite `utility' or else the trade would not occur — that markets are self-regulating — disregards the prospect of unequal power. The theories developed by the classical political economists of the 1700s and early 1800s were based on observations of village-scale transactions among craft-based participants, so lack a theory of power adequate for analysing international trade by global corporations (Nell 1988).

Modern village peasants with large debts to a local moneylender and forced to penury by falling prices for their cash crops cannot bargain with companies buying on behalf of wealthy western countries on remotely an equal basis. Nations are in a comparable predicament. Not even a developed country can negotiate a free trade agreement on an equal basis with the USA. Australia tried, but was comprehensively out-negotiated (Weiss et al 2004). Reportedly, Australia's negotiators advised against signing but were ordered back in to conclude a deal at any cost by the Prime Minister, John Howard.

Ironically, globalisation does not make free trade inevitable, it negates its basis. Advocates of free trade (e.g. Oxley 2003) set out to remove barriers to movement of capital and labour when this very practice invalidates the theoretical foundations on which trade policy relies.

If comparative advantage does not apply because of the inapplicability of its pre-conditions, the default position of absolute advantage prevails. In practice, this plays out as benefiting the well-endowed countries at the expense of the weak; and their advantage accumulates.

In summary modern trade policy lacks an adequate theoretical justification.

ANALYSIS

In this section, some aspects of trade policy and the process by which it is formulated are analysed to assess whether a policy of free trade makes any practical sense.

Official advice is one-sided

The advice that the national government receives from its Department of Foreign Affairs and Trade (DFAT)[xiv] – and has done for more than 20 years – argues only one side of the case, as if there is no alternative. And indeed it is difficult to see any alternative advice coming from the primary national sources of economic policy analysis – the Productivity Commission[xv], the federal Treasury, the National Farmers Federation (NFF) and the free-market think tank the Institute for Public Affairs. The pages of the mainstream financial press especially *The Australian* and the *Australian Financial Review* repeatedly laud free-trade and decry protectionism as Luddite.

This chummy mutually reinforcing debate in Australia's policy community is paralleled by pro-free trade policies promulgated internationally by the Bretton Woods economic institutions (World Bank, International Monetary Fund, World Trade Organization) and the governments of other Anglo-Saxon countries (notably UK, US, Canada, New Zealand). However, the official unanimity does not reflect the evidence of adverse economic effects in countries which have opened their borders to trade, or the critiques by NGOs (such as AFTINET) other than the NFF, or the theoretical critiques in disciplines other than neo-classical economics.

Lee (2020) suggests half a dozen themes that the World Trade Organization must address if it is to restore credibility to the international trading regime, even without jettisoning a core commitment to liberalised trade. She also highlights nicely the need to depart from boosterish claims:

> "Extolling the benefits projected in general equilibrium models can sound like cheques in the post, especially when most politicians have spent decades ignoring rather than confronting distributive effects."

Trade activity — to what end?

Most official expositions such as the language in WTO documents elevate trade as an end goal: for example, the WTO defines a country's regulation as an unnecessary obstacle to trade if its objectives can be achieved by less trade-restrictive measures.

There is a circularity in these arguments. The promises of free trade depend upon global economic growth, but growth by this argument depends upon free trade. The practical case for free trade rests on its argued capacity to increase the throughput of goods and services, by accessing cheaper or better products. Whether human well-being, at least in the developed economies, is advanced by cheaper and better products is contestable. Science and mechanisation have solved the "production problem – the challenge of supplying the essentials of life to a population – and other challenges such as loss of biodiversity, climate change and inequality (should) now take centre stage.

Free trade agreements are nothing of the kind

The UN (1997:24) reported that "All countries have a shared interest in an open, rule-based equitable, non-discriminatory transparent and predictable multilateral trading system." One can agree with this principle, without supporting *free* trade as an ideology. From this principle, a position on which the WTO was established, trade negotiations have evolved into a series of bilateral trade agreements or "Preferential Trade Agreements"[xvi] (PTAs), with the Australia-US Free Trade Agreement of 2004 being a milestone (partly because it was the first that the USA had signed with an OECD country). There are two notable consequences of this evolution. The first is that their very existence destroys any pretence that all countries benefit from generic trade liberalisation.

By definition a free-trade agreement establishes an anti-free trade cartel which preferentially excludes third parties (Garnaut 2003). DFAT cannot reasonably claim that there are benefits in global integration while also claiming that an agreement designed to discriminate against the rest of the world in favour of one country (Costello 2004) will also bring comparable benefits. If there is a sound theoretical basis for multilateral trade liberalisation, it cannot also justify bilateral trade agreements (unless they are a Trojan horse for deeper liberalisation). Comparative advantage will not serve for both and no other theory seems to be commonly invoked. PTAs expose the reality that trade agreements are about gaining advantage over countries not a party to the deal, and about ratcheting downwards various barriers to the operation of multinational corporations across borders.

The other consequence is that trade policy is now a spaghetti tin of special rules that are extremely difficult for anyone other than a specialist to understand. There is good evidence that many Australian manufacturers don't take advantage of opportunities opened up under PTAs because the conditions are too complex to navigate.

A simple example of complexity and intersection is that in 2012 the tobacco industry litigated against the Australian Government's plain packaging laws using an obscure 1993 PTA with Hong Kong. (Some $39 million of taxpayers' money was spent by the government to defend the case[xvii]).

Capling (2001) commented on the unilateral surrender of its sovereignty by Australian negotiators:

> "By the late 1980s, the case for preferential trade agreements between Australia and its major trade partners had grown even weaker, with Australia's already limited bargaining power in a preferential context further diminished by our unilateral tariff cuts. As one of the most open economies in the world, Australia has relatively little left to offer by way of bilateral market access in goods or services. Where import restrictions remain, they are in sensitive areas such as cultural protection and quarantine regulations."

Capling used the term "desperate and dateless" to describe the perceived attitude of Australia's negotiators at some periods to be driving Australian trade policy. As leader of the Cairns Group of agricultural-exporting countries (primarily developing countries) advocating for trade liberalisation, Australia has encountered persistent resistance from numerous countries to opening their borders at the expense of their domestic agricultural industries. Fancy that.

Economic efficiency

Australian producers are urged to become 'internationally competitive' if they are to succeed on world markets. Economists regard the price that producers' agents are prepared to accept and consumers' agents are willing to pay as the objective standard. The first problem with this equation is that the agents have their own interests and these do not necessarily coincide with the interests of the producers. The second problem is that competitiveness is a variable with many components, not an objective standard. The prices for which goods and services can be sold internationally depend on several diverse ingredients, notably:

1. The *direct costs of production* and the 'efficiency' with which the producer uses input resources.
2. *Factors influencing supply and demand* – for example, consumer preferences, natural disasters, advertising...
3. *Domestic wage-price cost structure* – affecting purchasing power within a country – for example, proximity of resources, taxes, interest rates and institutional constraints...
4. *Inter-country differences* in natural conditions – comparative factor endowment – item 3 played out on a global canvas.
5. *Exchange rates* of the relevant currencies.
6. *Tariffs or subsidies*, cartel or governmental quotas on production, transfer pricing by corporations and tax evasion.

The marvel of the market *for consumers* is that these factors are smoothed out invisibly before goods and services appear in the shops for purchase. But *for producers* in a mixed economy only the first two ingredients are reasonable variables. To require them to compete on the others is unjust and anti-intuitive.

Traditionally, efficiency referred to the number of labour hours spent in making a product (Morris 1993:145). In common language, 'efficiency' refers to capacity to produce a good less wastefully, confining the term to the first ingredient. But in economics, \`efficiency' refers to the capacity to market something at a lower price, embracing all ingredients. \`Economic efficiency' is achieved when goods transact in pure competitive markets. Many economists define it in terms of \`value of output for given value of input resources', which sounds as if it approximates the first, but in fact embraces all because in economics 'value' is measured by price.

Sanders (2006) contrasted 'ecological efficiency' — extracting the maximum amount of service from a given quantity of natural capital — with 'economic efficiency' — achieved when prices at which goods and services are marketed are at a minimum. Economic efficiency biases all values to the present (because of discounting) thus breaching the condition of inter-generational equity which is inherent in any notion of sustainability. Defining 'efficiency' in a resource-based rather than market-based manner fundamentally changes the implications for public policy."

The six factors listed above are considered in turn.

Direct costs of production

There is nothing normative or absolute about costs. The prices of raw materials, labour, services, fees, transport and all other inputs are variously subsidised or taxed in a mix unique to each polity or industry or geographic locality and continuously changing.

Price in market transactions is disconnected from the quantum of flows of materials and from non-commodified public goods. This works against husbanding a society's patrimony of natural resources. Markets regard natural resources as the free gift of nature until some human agent has commodified them, so do not prepare for their exhaustion (except perhaps by raising the price which makes it profitable to extract more quickly) and do not signal under-pricing. By definition, in a sustainability-conscious era, a non-renewable resource like oil can be deemed as underpriced if it is cheaper than the renewable alternatives such as solar or wind power.

Although the transport between countries of similar goods produced by similarly competent suppliers may be economically 'efficient' if it brings cheap goods to the importer, it is wastefully 'inefficient' in use of resources in any material sense. For goods other than those unique to the trading partners, this amounts to spending fuel to promote brand competition between alternative suppliers. The apparent efficiency is a fiction of accounting (Palley 2003). Given that when petroleum is burnt, the embedded energy is lost for ever for any other useful work, non-essential trade in goods represents an irresponsible waste of a gift of nature and of humanity's inheritance,

A similar principle applies to human capital: free markets disregard the cost to the state of educating future employees or the welfare expenditure on rehabilitating poisoned or injured workers, or the waste if able workers are made redundant.

The National Farmers Federation, an early and unswerving advocate for free trade (1993), has helped to place Australia's farmers in their current predicament. Under free trade, domestic prices are capped by international prices, so to survive farmers must reduce costs. The NFF's advocacy in favour of free trade has *necessarily* led to their anti-union, anti-environmental policy stance, because to match international prices, it becomes necessary to squeeze all conceivable embedded costs out of the cost of production. This *necessarily* will weigh more heavily on investment into inputs that can't be shown directly to lead to an improvement in production. Specifically, reducing costs means reducing investment in maintaining and regenerating their productive asset – their land resource – the condition of which doesn't appear in the market. Governments are then obliged to pay drought aid, land care, FarmBis, welfare and other schemes to ensure their survival. Hardly an 'efficient' method of remunerating the nation's food producers. As Parliamentary Secretary Sharman Stone (2003) observed in referring to corporate competition:

> "A community that pays less than the total cost of production, in particular, for food and beverages, will ultimately pay the price through degraded natural resources and human capital. ...sustainability is under threat when retailers use their market power to force prices to suppliers close to or below their full cost of production."

Supply and demand

Supply and demand are balanced more or less effectively by the market. The consequences sometimes may seem unfair, such as when a hail storm destroys a battling farmer's uninsured ripening crop, but so long as Providence or lack of business skill can be blamed, producers tend not to blame the trading system.

There is no doubt that supply chains that deliver wholesome produce in ready-to-eat form from all over the world to supermarkets throughout our continent is a marvel of modern business and testament to the ability of markets to coordinate supply and demand. However, it shouldn't be forgotten that such supply chains are also a marvel of modern government. Without public services such as weights and measures, reliable currency, environmental regulation, transport infrastructure and other regulatory and coordinating mechanisms, supply chains could not rise reliably above the scale of the locality where trust keeps selfishness and skulduggery in this in check: in other words, the scale of the villages in which Adam Smith's butcher and baker plied their trade.

Domestic purchasing power

Producers contribute through various taxes and charges to Australia's high level of civic amenities — such as libraries, universal education, research such as by CSIRO, public transport, the Australian Broadcasting Commission and the social welfare net. Trade-fuelled pressure to reduce costs tends to squeeze 'overheads' such as taxes and fees out of the cost of doing business. The end result can only be a decline in the quality of civic life — and, ultimately, in exporting, which also benefits from these forms of infrastructure because they are public goods under-provided by the market. Quiggin (1997) referred to the "naive mercantilism common in the business sector, where community services are seen, not as a pillar of our economic well-being, but as a cost burden detracting from 'competitiveness' on export markets."

Of course, business pressure to cut taxes and reduce regulation is not confined to trade policy, but the competition that imports impose forces local producers and manufacturers to look for a scapegoat. With closed borders, supply and demand would operate more transparently.

Under free trade in financial services, this problem compounds itself as businesses trading internationally become unaccountable to the community from which they have severed themselves (Terry 1995:165) but which have nourished them by civic services, education and public infrastructure. Our government even abets this by joining the international race to the bottom through downgrading corporate taxation scales, pressuring other countries to deny their governments revenue from tariffs and deregulation under WTO disciplines.

The farcical nature of free trade polemic is exposed in the treatment of copyright and pharmaceutical patents. Protections for intellectual property are the antithesis of free trade, but they are repeatedly extended through bilateral and multilateral trade agreements. For example, Australia extended its copyright protection for creative works (from 50 to 70 years after the death of the author) to comply with the Australia-US Free Trade Agreement, ostensibly to encourage creative activity. But the notion that an author who has been dead for 69 years needs a continuing flow of royalties to encourage their creative instinct is ridiculous. The protection of intellectual property in trade agreements is evidence that these agreements are primarily simply to benefit corporations especially those in the USA which enjoys pre-eminence in creative and other intellectual property.

These arguments have been well canvassed in numerous submissions and advocacy by the Australian Fair Trade and Investment Network[xviii] and in Weiss et al (2004) but seem to have had nil effect as Australia continues to sign free trade agreements and to pressure other countries to open their borders.

Inter-country endowment

Climatic factors, disease conditions and suitability of natural resources such as rainfall, soil fertility and topography vary widely between countries. While it is not unfair to allow competitive markets to pit farmers within the same bio-geographic area against each other, it is unfair to expect farmers to remain competitive with remote farmers enjoying more benign conditions. *Prima facie*, it cannot be in the national interest to allow global market agents to preside over the fortunes of a country's food producers in this way.

Exchange rates

The fourth factor brings an international lottery into trade practice. Official exchange rates have been floated for a majority of national currencies[xix].

The touted reason for floating — by which the exchange rate is set by balances in foreign currency transactions — is to allow currencies to reflect genuine financial fundamentals rather than the potentially misguided policies of governments. Yet over and above fundamentals, financial trades are a complex resultant of uncertainties such as geopolitical deal-making, wars, corruption, hedging by futures traders, `herd instinct', Alan Greenspan's "irrational exuberance", computerised selling and momentum trading. With computerisation (example: the Australian Securities Exchange allows high-frequency traders direct access into its computer servers allowing them to gain millisecond advantage over the market), trading exchanges are platforms for gambling by another name. In any case, the financial markets are connected only indirectly and weakly with the national *production* markets which determine national prices. For many years more than 95% of world transfers of funds have been for speculation or investment, not supporting transfers of tangible goods and services.

That foreign goods are cheaper or dearer than domestic equivalents is partly an artefact of the currencies' relative exchange rates. This is unfair to producers, who can meet best practice production, employment, technological, green and marketing standards but can still be beaten by shifts in exchange rates over which they have no influence. Trade advantage can seesaw. Since 2000, the Australian dollar has swung from about 50c to about 96c, to about 71c to the US dollar at the date of finalising this paper. These swings can disrupt planning by firms and farmers. Efficiency is harmed by placing investment in farm and public infrastructure with lead times of years at the mercy of capricious financial flows with lead times of minutes.

Also, and more subtly, when two countries trade, the higher-wage partner is able to buy goods at prices less than their true (domestic) cost. Intuitively, this is unsustainable. It is also unfair, because the lower-wage partner does not share the windfall. International trade obliges poor countries to purchase their sophisticated imports such as machine tools, computers, armaments and northern expatriates at prices profitable to industrialised producers, but they can sell their commodities only in competition with other poor countries, driving prices down and allowing rich countries to pick bargains. The disparity is growing: prices for primary commodities have fallen relative to prices for manufactures for decades (Rees 2002). The result is that domestic production closes down. This is not the pathway to prosperity.

Trade forces poor, non-industrialised countries to sell their birthright of natural resources cheaply, as international trade in commodities is competitive (and they lack market power). Trade causes countries to dedicate their raw materials, labour, infrastructure, industrial capacity and in part their educational system to producing goods and services for the benefit of countries other than their own. Australia imports doctors and Nile Perch from doctor- and protein-starved Africa. Could we do anything more cruel?

The food trade between continents is promoted heavily in negotiations within WTO, because the export of food from developing countries can earn them foreign exchange, which they need to repay debts to the (mainly) First World countries and to purchase sophisticated inputs such as motor vehicle and computers to maintain basic health, education and other public services.

International free trade obliges employees in the subject industries to compete with the poor of the world for jobs and wages. Every farmer and production worker is thrown into competition with workers in every signatory nation (Morris 1993:159). Every regulator valiantly attempting to enforce quality and ethical standards is undermined by free trade with countries with lower standards.

Tariffs and protection

One traditional purpose of tariffs has been to even out the differences in the value of money across borders, so that producers can compete equitably on the basis of cost of production. Accordingly, it cannot be true that tariffs and similar instruments distort trade by protecting `inefficient' producers from competition. No matter how hard the WTO and governments try to eliminate tariffs, quotas and subsidies, the domestic cost-price structure and exchange rates will always be variables. This establishes a *prima facie* case for tariffs to smooth out what would otherwise be a distorted playing field, shielding a nation's producers from predation and from volatility in exchange rates.

If an industry is subsidised in its home country (directly by production subsidies or indirectly by income support, export incentives, research grants or tax deductions) it can engage in predatory pricing overseas. So its imports can penetrate the target country and compromise the local competitor industry. Any country (such as Australia) which abolishes tariffs unilaterally without obtaining reciprocal guarantees is simply a sucker.

Consumers are also producers

A paradox is the emphasis by advocates of trade on reduced cost to consumers and the corresponding lack of concern about the effects on producers. Consumers are said to benefit from the low prices that international competition brings. The corollary of low prices paid by consumers is low prices paid to producers. That low prices can be of economic benefit to both is, as a generality, a logical impossibility. Even though trade advocates argue that low prices have the beneficial effect of forcing *producers* to become more efficient (that is to waste less labour and other inputs), it could equally be claimed that low prices encourage *consumers* to be less efficient (that is, to waste more products). Note that pressure on the natural resources is invisible in the metric that requires producers to become more 'efficient'.

Trade can alter distribution within a country and it cannot be assumed that the changes average out. A survey of 84,000 households (WB 2005) found a "sharp 6-per-cent drop" in living standards of rural households because of agricultural imports and increasing cost of consumer durables since Beijing's accession to the WTO in 2001.

The notion that Australia can improve its economy by sourcing services offshore (EAU 2001) is also anti-intuitive. Certainly, costs might be reduced, but 'costs saved' actually means 'investment forgone' — on Australian jobs and development of local capacity. In any case, it is only an assertion that the best interests even of consumers lie in reducing costs. Low prices inhibit craftsmanship and encourage planned obsolescence. Under severe competition firms cut corners with product standards or after-sales service. Low margins work against research and development which in any case is generally under-provided by the market. The expectation of future profit is the basis for future investment and a major source of material progress in a capitalist economy.

For example, low oil prices in the 1980s discouraged energy conservation, new generation technology and, of course, exploration for new reserves. It led to a decline in the 'human capital' in the form of a network of skilled petroleum geologists able to assist with a transition to a new era (Fleay 2001).

Free trade in services has crippled the prospect that call centre work might be a valuable source of income for Queensland pastoralists. In the early days of call centres, it was suggested that a cattle person's partner could supplement the station income in this way. Not after firms including public authorities outsourced their call centres to Bangalore or the Philippines.

Low prices for traded goods also skew the relative cost of non-traded services and hence undermine the provision of public goods such as education, health and community welfare, which by their nature are labour-intensive and anchored locally. Right-wing pundits observe this and mistakenly rail against the apparent expansion of government. Expressed in other words, 'low prices for consumer goods' equates to 'high prices for services' as the terms low and high are relative. Free trade encourages downwards ratcheting of budgets for public services. Again, remote communities particularly lose out.

The question of whose interest is served by trans-national trade in food becomes more clear when one disregards the financial economy, which is an artificial construct, and looks instead at the balance sheet in goods. Food moves in one of two ways, both regressive:

- away from producer countries where it is not available for its people to eat (not so relevant to Australia but critical for developing countries obliged to dedicate their agricultural land to exportable cash crops); and/or
- into other producer countries where it displaces local production. This feature is particularly relevant for Australian farmers who in industry after industry sector after sector (dairy, flowers, fruit, vegetables, honey, pork, lamb) are denied the benefit of better prices through tightness of supply because of imports of cheaper produce or the threat of imports.

DFAT uses the undeniable growth in East Asian economies in the 1980s and 1990s as evidence that 'globalisation' brings wealth (EAU 2003). The fact that developing countries can benefit from export to rich countries is clear enough; but the prospect that markets in their countries might be destabilised by reciprocal opening of their markets to foreign goods or services is a much less acknowledged but necessary corollary.

Not everyone can profit simultaneously

It cannot be possible for every country to run an enduring trade surplus, as world totals must sum to zero (Stiglitz 2003). The trade-fuelled growth of the Asian tigers in the past 30 years has been at the expense of the countries (including Australia, one of the losers) which have run up trade deficits. Trade advantage is about edging out some other country or domestic competitors. If that were not true, international competitiveness would not be an issue in trade circles.

The fact that a country can increase its economic prosperity through trade doesn't prove the free trade argument: it simply demonstrates that if you sell more goods than you buy, you end up with money in your pocket. Australia jump-started its economy in that way, notably in the gold rush era of the mid-1800s and then the golden era of wool in the 20th century. It simply happens that China is now the country able to thrive by importing capital and exporting goods; but this phase, too, will pass. What eludes the world is a sustainable model of trade (Stiglitz 2003).

World trade in merchandise increased 20-fold between 1950 and 2000 but production increased only six-fold (Dicken 2003:35). This suggests that either similar goods are being swapped or countries are allowing their own production capacity to be superseded by imports, or both. For example, some goods may cross the oceans twice (e.g. once as grain then again as lot-fed meat); or similar produce may be exchanged (e.g. fruits in alternating seasons). These activities will not necessarily help domestic producers overall, though they may be profitable for individual firms.

Certainly, trade and foreign investment can bring systemic benefits such as by permanently increasing a country's stock of knowledge. However, trade does not *automatically* do this. Trade in staples which both countries can produce, and foreign investment which simply gobbles up local viable businesses, are generally wasteful of the human resources of the importing country (UN 2000, Singh 2003).

Foreign direct investment has to increase economic activity sufficiently to service the increased external obligations it creates, perhaps indefinitely (UNCTAD 2003). There is chatter in policy circles that Australia has always relied upon foreign investment to develop its natural assets (true for the pioneering era, hardly justifiable now that we are a developed country within the OECD). There is also chatter that given the traditional reluctance of domestic equity investors to invest in agricultural assets, we should welcome foreign investors willing to do so. But there are serious defects in that argument. There is now no morally legitimate reason why Australia should live off the assets or lending power of the rest of the world, nor is this sustainable, as in a roundabout way it amounts to selling the nation's family silver (capital resources) to pay for current consumption. Another objection is that opening the borders to foreign purchases can inflate the value of an asset beyond its domestic market value and hence disadvantage domestic buyers. A third objection is that if the return on capital is scraping along at less than 2%, which is typical of broadacre pastoralism in Australia, and if we assume that many stations are run leanly as family businesses, which is typical, then the only ways that a foreign investor can do better is by making a windfall capital gain on the real estate, transfer pricing, evading taxes or driving the natural resource harder into the ground. None of these are in Australia's national interest nor in the interests of the industry.

Destroying sunrise and other industries

If new-technology jobs such as IT programming and call centres are moving to countries with lower labour costs, there seems no reason why any services other than geographically anchored ones like tourism will be shielded from decamping overseas. Under GATS there is no reason why even core governmental policy analysis won't shift offshore to think-tanks based in the Third World or the USA. Economic analysis can be done in New York or Chicago, since the same neo-liberal consensus prevails in both countries; and since the US has insisted under A-USFTA that domestic favouritism clauses be removed from government procurement policy. Perhaps DFAT should outsource its trade policy analysis to a country that is successful in trade, such as China.

In addition to snuffing out sunrise industries, international trade destroys mature capital, on a large-scale, often written off (via depreciation allowances) at the expense of the taxpayer. Communities reliant on individual factories are destabilised (Greider 1993).

The sale or leasing to foreign investors of enterprises that we used to run ourselves such as buses, trains, and, notoriously, private prisons ensures that a proportion of dividends, profits and intellectual property flows overseas, with or without being taxed here. The Australian-invented Wotif accommodation and flight booking service was sold to foreign owners[xx] who promptly increased the fees, fees that Australian providers now have to send offshore for their advertising. Franchise fees for international brands are another source of leakage.

Sale of a productive agricultural asset such as a cotton farm or pastoral company to a corporation headquartered overseas or another sovereign government offers multiple avenues for undermining Australia's public interest. A sharp corporation can use transfer pricing of produce or inflated interest on loans to a parent company to reduce the profits earned in Australia and therefore the taxation paid. It can import workers on 457 visas via labour hire companies and pay them in cheap money in their home country, meaning no payroll tax or income tax is remitted to the exchequers in Australia. Superannuation and other statutory entitlements can be avoided, allowing such a company to undercut Australian competitors. The company can qualify for a wide range of drought, water infrastructure, Landcare and other subsidies from the Australian taxpayer without paying anything in return. This is the modern equivalent of plunder, by the modern equivalent of pirates.

Worse, objections to subterfuges of the above kinds can be ridiculed by the corporate media as Luddite or xenophobic; and any disputes within Australia over labour conditions or environmental regulation can rapidly be elevated to the arena of foreign affairs and be used by a foreign government as a weapon against Australia.

Free trade makes the production of utensils and miscellaneous manufactures by artisans a niche activity with a clientele limited to the better-off Australians. Trades such as blacksmithing, food-processing and carpentry, or any industry that can take advantage of in situ solar electricity, could be a highly effective way of enticing population back to western Queensland townships, but there is little prospect of re-localising an economy in this way while foreign goods can be trucked or railed in more cheaply, or foreign investors allowed to buy enterprising start-ups and then close them down.

Note that there is a respectable economic and ethical case for allow labour from Third World countries such as the Pacific nations to work in Australia and repatriate their wages, as a form of foreign aid. But that requires management of the visa system for that purpose, a very different regime from one based upon undercutting Australian labour with some developmental spin-offs after a juicy slice has been siphoned off by recruitment intermediaries.

Systemic and strategic effects

A recruitment company established at the beginning of the pandemic to find jobs on farms for Australians alleged that 1500 applicants on its books could not find a single farm job because of the preference of farmers for foreign workers, presumably because of the poor pay and conditions that they can impose[xxi]. Threats to farmers' social licence to operate don't all come from environmentalists, although it is difficult to blame farmers for a system that facilitates the exploitation of foreign workers.

Australia knowingly allowed its car manufacturing industry to close down in the face of ready access to cheaper imported vehicles. It has been widely (and logically) reported that car manufacturing has underpinned a range of other toolmaking and fabrication capacities including industries supplying defence matériel. It has been less widely reported that, given the widespread pledges by other countries to convert their fleets to electric vehicles by 2030, Australia may have difficulty in accessing a supply of right-hand drive electric vehicles when they will be in heavy demand in the home countries of their manufacturers.

The $100 billion food roadmap of 2019 promoted by the NFF in harness with the Australian Government is based partly on rosy assumptions about the capacity of the natural resource to deliver twice as much production as historically and partly on rosy assumptions about Australia's likely success in trade negotiations. This roadmap can deserves a critique in its own right and is not dissected specifically here.

However, it can be stated simply that in making optimistic predictions about other countries' likely future demand for Australia's 'clean and green' produce, the roadmap overlooks the prospect that markets, especially in Europe, will shut their borders against produce from countries that cannot certify their emission status or audited sustainability credentials. Some agricultural industries are making good progress in quality control and certification, but they are hampered by the federal government's refusal to take emissions reduction seriously.

Australia has a poor history of success in sophisticated trade negotiations, dating from the wool industry in the 1800s where value was exported to England along with the raw fibre, and a long history of being passive price-takers. There are many commodities for which we need the world but the world does not need us. Yes, climate change may crimp production in other countries, leading to price rises and less competition, but it will also crimp production in Australia (although unevenly).

Preferential trade agreements are negotiated in secret and even parliamentarians are not permitted to view the draft texts. This anti-democratic practice suggests that the negotiators are ashamed of what they are doing in the nation's name, that they are serving not the national interest but the interests of the corporations who do have access (chronicled in numerous reports by AFTINET).

The foreign investment regime has allowed a foreign citizen to control more than 65% by circulation of Australian newspapers which he uses to disseminate an idiosyncratic reactionary, anti-government worldview of US origin that has little alignment with Australian traditional political philosophy. In mid-2020 some 30+ regional newspapers were peremptorily shuttered and another 70+ ceased print publication[xxii]. Given the importance of these organs for community cohesion and information sharing, they should not pass from Australian control.

Biosecurity

Of all the loci of damage that lightly moderated free trade and investment is doing to Australia and its economy, the compromised biosecurity barrier is probably the most consequential. In principle, many of the other policy settings governing trade could be amended or abandoned: factories could be re-established here, mineral ores could be processed to a higher level before export, fuel exports could be reduced by electrifying the vehicle fleet and so on. Even the ballooning foreign debt, consequential though it may prove to be, consists of only numbers in a ledger. But pests and diseases like myrtle rust, swine fever and varroa mite, once established are beyond realistic control and will irreversibly damage Australia's ecosystems with far-reaching effects on agricultural production systems. A recent report by CSIRO[xxiii] has argued that Australia's biosecurity needs a major overhaul to protect the nation from a wave of invasive pests, pathogens and potential pandemics. Interceptions of materials that were a biosecurity risk – such as insects, soils and plants – rose by 50% between 2012 and 2017, the report says, and some 20 new invasive weeds are establishing themselves every year. Science and industry routinely warn the government of the risk and even implore government not to take the free trade route, but the breaches keep coming. A sample list of 11 recent incursions published by ABC Rural[xxiv] tells a sorry tale indeed.

Myrtle rust[xxv], with potentially devastating consequences for Australia's uniquely vulnerable myrtaceae-dominated natural ecosystems, slipped through the weak horticultural quarantine net and now will never be eradicated.

The importation of apples is another case in point. Concern about fire blight in particular has animated opposition to the importation of apples from New Zealand since 1921. In 2010 Australia lost an appeal to the WTO, having surrendered its sovereignty to an opaque international quango not bound by the rules of evidence. In 2020 the debate played out again as the federal department issued a draft report[xxvi] supporting the importation of apples from the United States, even while noting that some 24 recognised pests and diseases, including fire blight, are present in the Pacific Northwest states alone. This author finds it incomprehensible that a government would even contemplate placing the well-being of a major sector of its farming industry, let alone its clean and green reputation, at such an unnecessary risk.

It's not as though Australians absolutely *must* eat certain seasonal crops all year round; and in any case even that weak excuse does not apply to some recent decisions, such as approval in 2017 to import Vietnamese dragon fruit just as Northern Territory growers commenced picking their own crops[xxvii].

There are deep disconnects between science, farm management experience and trade policy. It would seem that trade economists do not understand the physical impossibility of cleansing cargoes of organisms, particularly those that may be microscopic in size. Science tells us that a single spore of *Fusarium* will transmit Panama disease, then susceptible varieties of bananas cannot be grown in an affected area again.

CONCLUSIONS

For a policy to be well grounded, it must reflect a robust theoretical foundation and be consistent with the empirical evidence. These ingredients seem to be missing from recent analyses by the Government and the National Farmers' Federation.

International free trade conflicts with many policies conducive to the public interest. The transport of capital and goods for the purpose of increasing consumption is deemed to take precedence over the sovereignty, well-being, environmental sustainability, workplace conditions and culture of local communities (Morris 1993:139). The intellectual and administrative energy consumed in arguing these cases exhausts industry and devours capacity within the public authorities involved. It would be simpler just to say no.

Those who advocate free trade as a generic policy are, in mathematical language, attempting to solve a multi-factorial equation with a single variable. Factors such as exchange rates, hidden variations in wage-price structure, environmental deterioration, availability of natural resources and political jostling are variables, not absolutes to be assumed away. Under trade, as in competitive markets generally, the strong become stronger and the weak fall further behind. This feature has both theoretical and empirical explanations.

The analysis in this paper reveals who benefits and who loses from free trade. The failure to excise currency exchange rates from the calculus of competitive 'efficiency' means that 'efficiency' makes sense only for organisations — notably trading corporations — that can shift their activities around the world, without concern for the effect on farmers, factory workers, domestic consumers and their national governments.

Australia's farmers and graziers are running down their natural capital because competition policy domestically and free-trade policy internationally can force the prices of commodities below the cost of sustainable production. In the 1980s and 1990s tariffs were reduced to force so-called fat and lazy industries to reduce costs. Now farmers are being told that their costs must be further reduced in order to match international prices, that is, to maintain low tariffs. This beggar-the-producer policy is now being extended through free trade agreements to the professions, service industries, investors and administrative classes. International free trade bargains away a country's capacity to feed and tax itself and to develop its own intellectual capital.

Contemporary trade policy in Australia has the hallmarks of a cargo cult, whereby the electorate is regaled with promises of abundance and profit that don't require hard work. The national interest is depicted as lying in free trade in itself, careless of the fate of displaced employees or wasted productive plant, dismissive of foreign debt, and blind to the consumption of natural resources, notably the transport fuel that lubricates the process.

Simply repeating a false belief over and over does not make it true. I recommend to the farming community that they press their political representatives to commission research tracing the logical consequences of free trade for agricultural producers in terms of debt, fuel consumption, biosecurity, environmental quality and profitability. I also recommend that farming peak bodies commission research from external sources who are sceptical about a free-trade regime that has long been driven by two forces inimical to Australia's national interest:

- ideological economics resistant to contrary analysis; and
- global corporations uninterested in the welfare of domestic producers.

The Wikipedia entry for David Ricardo[xxviii] has a quotation from one of his contemporaries that seems remarkably prescient of the zeal of free-trade economists today:

> " … he meets you upon every subject that he has studied with a mind made up, and opinions in the nature of mathematical truths. … It is this very quality of the man's mind, his entire disregard of experience and practice, which makes me doubtful of his opinions on political economy."

The free trade emperor has no clothes, but unlike the peasants in the fable, the Australian population has never been deceived. Australians have always been proud of our export capacity but never of import substitution or of discarding tariffs as a tool of policy. It is the courtiers who have allowed themselves to be deceived, for various reasons, including a lack of intellectual curiosity about the merits of international trade or in some cases craven loyalty to commercial interests who do not have the interests of primary producers at heart.

It is not clear that there is any ready solution available to Queensland's farmers and graziers. Some nimble producers will have been able to take advantage of the procedures that the trade agenda imposes, such as by currency hedging, forward contracts, better quality control and investment in marketing. These techniques partly prove the claim of trade experts that competition forces producers to give more attention to quality and market appeal. Producers who have benefited will not want to join forces with those who have lost advantage in order to re-establish collective-bargaining institutions. But the systemic problem remains, that the prices that prevail in international markets (and for that matter in domestic markets but that is a different story) are disconnected from the costs of production, particularly the cost of managing the natural resource asset base for non-marketable ecosystem services.

Given the monolithic nature of successive federal governments' commitment to pursuing a pro-corporate free-trade agenda, dismissive of this fundamental challenge for sustainable management, there is no happy ending in sight.

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Endnotes

[i] https://oontoo.com/
[ii] Ben Rees, Dalby, 24 Nov. 2020:
"In colonial days, tariffs were the major source of income for the various governments. Victoria moved to manufacturing behind tariffs in 1866, but most other states remained dominated by pastoral industries. As NSW's population grew, government revenue broadened and the state confirmed its free trade stance. Post federation, the first elected government was led by Edmund Barton, a protectionist. Free traders were led by G.H. Reid.

Justice Heydon of the NSW Trade Board stated that the wage should enable a humble worker to lead a human life, to marry and maintain a family with some small degree of comfort. In the 1907 Harvester judgement, Justice Higgins made this a standard for wage determination. The Harvester judgement was concerned with a High Court challenge to the "New Protectionism" which sought to exempt manufacturers from excise duty if they paid a "fair and reasonable" wage. The High Court challenge struck down the excise duty, but the wage standard remained. Protectionism became an important feature of industry policy.

The next major debate over tariffs and industry protection came in the Brigden report of 1928, which found that tariffs were necessary to provide full employment for the Australian labour force. Without tariffs, the industrial base would comprise a small number of very large farms supported by a handful of large mines. Those not employed would comprise half the existing labour force whilst the remainder lay under “palm” trees.”

[iii] https://bertkelly.org.au/ Also https://economics.org.au/2011/10/the-society-of-modest-members/
[iv] https://www.dfat.gov.au/about-us/department/Pages/our-history
[v] https://crudeoilpeak.info/australian-crude-oil-reserves
[vi] https://crudeoilpeak.info/australias-oil-consumption-highly-vulnerable-to-events-in-the-middle-east
[vii] https://crudeoilpeak.info/australian-graphs/oil-import-dependency :

2010 figures (self-sufficiency has decreased since then):

- Refined from imported feedstock: 47%
- Direct imports: 33%
- Refined from indigenous production: 20%.

Production of condensate from the LPG fields off North-west Western Australia has been increasing but Australia lacks a refinery able to crack this material so it is all exported.

[viii] https://www.abs.gov.au/statistics/economy/international-trade/balance-payments-and-international-investment-position-australia/latest-release
[ix] https://www.theguardian.com/business/grogonomics/2020/oct/27/australias-services-exports-have-been-smashed-and-thats-not-good-for-jobs
[x] Bernhofen, Daniel and John Brown. “On the Genius Behind David Ricardo’s 1817 Formulation of Comparative Advantage. *Journal of Economic Perspectives*—Volume 32, Number 4 - Fall 2018. Pages 227–240
[xi] https://en.wikipedia.org/wiki/David_Ricardo
[xii] Spencer P Morrison. 30 Sep. 2018 “Ricardo’s Dilemma: Why Comparative Advantage Fails”. Analysis 16. Https://nationaleconomicseditorial.com/2018/09/30/problems-with-comparative-advantage/
[xiii] https://en.wikipedia.org/wiki/David_Ricardo
[xiv] https://www.dfat.gov.au/trade/about-ftas/Pages/the-benefits-of-free-trade-agreements
[xv] https://www.pc.gov.au/research/ongoing/productivity-insights/long-term , released on 19 November 2020 is a case in point
[xvi] Parliamentary Library 16 Dec. 2014. “Australia’s Preferential Trade Agreements: a quick guide”. Research Paper Series, 2014–15
[xvii] https://www.theguardian.com/business/2018/jul/02/revealed-39m-cost-of-defending-australias-tobacco-plain-packaging-laws
[xviii] http://aftinet.org.au/cms/
[xix] https://en.wikipedia.org/wiki/List_of_countries_by_exchange_rate_regime
[xx] https://en.wikipedia.org/wiki/Wotif.com
[xxi] https://thenewdaily.com.au/news/2020/11/16/farm-work-australia-exploitation/
[xxii] https://independentaustralia.net/business/business-display/news-corps-closing-of-newspapers-a-blow-to-australian-communities,13947
[xxiii] https://www.theguardian.com/australia-news/2020/nov/04/pests-pathogens-and-pandemics-australias-biosecurity-needs-an-overhaul-csiro-warns
[xxiv] https://www.abc.net.au/news/rural/2017-02-20/biosecurity-outbreaks-in-australia-a-short-history/8280634
[xxv] https://www.abc.net.au/news/science/2019-12-04/myrtle-rust-fungus-invasive-species-killing-native-trees/11730738
[xxvi] https://www.abc.net.au/news/2020-10-27/us-apples-get-biosecurity-approval-despite-producer-concern/12817398
[xxvii] https://www.abc.net.au/news/rural/2017-09-28/vietnamese-dragon-fruit-imports-begin-despite-concern/8995606
[xxviii] https://en.wikipedia.org/wiki/David_Ricardo