

Tariff Act 1988 Repeal Bill — First Reading - 5 May 2010

Hon Sir ROGER DOUGLAS (ACT): I move, That the Tariff Act 1988 Repeal Bill be now read a first time. Way back in 1998, when National actually seemed to believe in something, it passed an Act that would have abolished all tariffs by 2006. The National Party back then had it right; the National Party today has lost its way, and now does not appear to believe in private enterprise or competition.

Tariffs can only harm the country that imposes them. When we impose tariffs on iPods, sports equipment, and shoes, we make New Zealand consumers worse off. Consumers have to pay for the goods that they want. To take just one example, let us assume that we have a family in South Auckland who want to buy a pair of shoes. If those shoes are heavily protected they might have to pay \$200 for a pair, when they could pay only \$100 for an imported pair. What happens when they pay the \$200 instead of the \$100? During that week they will be unable to go to the picture theatre, and they will possibly be unable to buy as much food as they would otherwise have, etc. In other words, although protection might have produced one or two jobs in the shoe industry, the country would have lost jobs elsewhere.

Let us take the recent idea that the Labour Party has desperately latched on to—that we should build trains here. Let us say that the cost is \$200 million to import trains and \$250 million to build them here. I ask members what the first effect is of buying from overseas. The first effect is that the Government is better off by \$50 million. That is money that can be used to cut taxes or to spend elsewhere. “But what about the \$200 million that goes to China?”, some will say, “instead of staying in New Zealand?”. Well, what can the Chinese do with New Zealand dollars? There are only three things. The first thing they can do is to purchase goods and services from New Zealand, in which case we have nothing to worry about. The second thing they can do is to make the money available for investment. Once again, if people want to invest in New Zealand we should be happy about that, as well. The third thing they can do is exchange New Zealand dollars for their local currency. If they do that, then someone else has those New Zealand dollars—dollars that must flow back to New Zealand in the end.

Labour members misunderstand the economics of trade. That is why they will not support this bill. Many in National understand the economics, but think that the politics are far too tough. National seems also to think that trade barriers are somehow a useful bargaining chip in international trade. According to the logic that National applies, the most powerful trade negotiator in the world must be North Korea, a country with the highest trade barriers in the world. According to the perverse logic employed by National—and by Labour, I might add—we must harm ourselves in order to convince other countries to sign a trade agreement with us. That is a truly stupid argument. According to that logic the Governments of Singapore and Hong Kong are fools, because no one will ever want to sign a free-trade agreement with them. So which dumb countries have bothered to sign free-trade agreements with countries like Singapore and Hong Kong, which have no tariffs? Interestingly enough, New Zealand has a free-trade agreement with both.

The fact is that New Zealand can gain—and this is the essence of the argument—by selling goods that it can produce at a relatively low cost, from agriculture, etc., and by using the proceeds to buy things that it can produce only at high cost, like trains and shoes. There are three reasons for that: firstly, in international trade the people of each nation will be able to use more of their resources to produce and sell things they do well—a major plus. Secondly, international trade allows both domestic producers and consumers to gain from reductions in per-unit costs, which are brought about by specialisation, size, etc. Thirdly, international trade promotes competition in domestic markets, and thereby allows consumers more choice and lower prices.

During the 1980s eight of the least developed countries in the world with the lowest restrictions—the lowest tariffs—grew their economies at 5 percent a year, while 10 of the least developed countries with the highest tariffs remained at zero percent for economic growth. I think that that is significant. If we take eight of the least developed countries in the world with low tariffs during the 1980s, we see that on average their economies grew by 5 percent. On the other hand, 10 of the countries that had the highest protection, the highest level of tariffs and other restrictions, collectively remained at zero percent for growth. I think that that makes the case for getting rid of tariffs.

Labour members, both last week and this week, have argued that if we provide protection to the rail industry by building trains here, then we will create jobs for New Zealand. That is wrong—wrong. If jobs were the key to high incomes, we could create as many as we liked. We could dig holes one day and fill them in the next, but we would be very poor as a result. Of course high tariffs will expand employment in a protected industry. That is obvious; anyone can see that. However, that does not mean that total employment in the country will expand. If job-savers think that high tariffs and other trade restraints will create jobs, why do they not introduce a tariff between the North Island and the South Island? For heaven's sake, if it is such a good idea, why not do that? That example simply illustrates how absurd some of the arguments for having high tariffs really are.

To conclude, I want to make one final point: New Zealanders should simply be left to trade with whomever they want. We should be free to buy from the cheapest markets, and, if at all possible, to sell our goods in the most expensive. The economic benefits of trade do not—and I emphasise do not—care about political borders. Just as trade between Wellington and Auckland makes both cities better off—as indeed any voluntary trade must do—so does international trade make countries better off.