

“Do not go wobbly on me now”

Suddenly there is a lot of wobbliness around open economies and free trade. It is for me the most significant political development of the last few weeks.

In the US, Congress has proposed a levy on Chinese textile imports; in the EU the French, intimidated by a possible NO vote in the referendum, have gone completely wobbly rejecting the opening up of the services sector and Chinese textile imports. In Germany the government, intimidated by the prospect of losing a regional election, which could force its resignation, are equally wobbly.

And the same noises are heard locally, thankfully not from government. The Business Day is so traumatised by losses in the agricultural sector that it wants import tariffs on agricultural commodities. A respected economist is calling (very surreptitiously) for import protection to bolster the SA manufacturing sector. The textile industry is hysterical about cheap Chinese imports. The Leader of the Opposition refers approvingly to the British government using public money to bail MG Rover out. And the tobacco farmer who kept my wife on the phone for an hour complaining that BAT informed farmers they would import tobacco because it is cheaper.

What is going on? Why suddenly all this wobbliness?

The best reason I can advance is that globalisation, the one issue that the rich countries and business classes have pushed for years, has now begun to bite the same rich countries and business sectors that advocated it. The new textile regime has been ten years in the making. Now that it has taken effect and Chinese producers are cleaning up because they are cheaper, the same people who knew for ten years what was coming, want protection. The EU's enlargement was worked on for years, now that the new countries are taking advantage of it; “Old Europe” is all wobbly. And the US, so keen to say to others they must open up, is afraid of Chinese textile imports.

It would be a sad day for free trade and open economies if all these protectionist pressures were yielded to. If textiles and agriculture are protected, why not the gold mines as well? After all, they employ lots of people and keep whole communities going, not to talk about all the forex they earn. Lets impose a tax to keep them floating (that is all import protection is, a tax on consumers to protect producers). So let's tax to keep the gold mines going. And if the oil price falls again, why not impose a tax to keep Sasol and Mossgas going? Strategic industries, are they not? Talking about strategic industries, what about a tax to ensure that the taxi industry, which transports 60% of the country's public and is de facto SA's public transport system, is kept going as well. The list of industries to protect is endless. And the result entirely predictable: less growth and more poverty.

It was the great free market thinker Fredric Bastiat who wrote four days before his death in 1850, at the age of 49, that “in all matters economic, always take the side of the consumer, because the interest of the consumers are the interest of the human race”. Inefficient producers hate this quote. The efficient ones just go on producing.

It was also Bastiat that formulated the golden rule of economics: it is all about the secondary consequences (my emphasis). Easy to impose a tax or make regulations, but what about all the second round effects. That is where the real impact is.

From a risk analysis point of view, I would be very surprised if government now makes a u-turn and starts protecting. After all, its voters are mainly consumers and they benefit from the cheaper imports. 62% of GDP is now generated by private household consumption expenditure. Why on earth would government want to kill that off? It will negate all the hard work over the years of cutting taxes and enabling lower interest rates, thus increasing disposable income.

Ja, but what about jobs? Funny that. We are now creating more jobs with a strong currency than we did with a weak currency. 20 000 jobs a month (formal and informal) if you believe the Labour Force Survey; or 10 000 to 14 000 a month (formal sector only) if you want to believe economist Mike Schussler. Take your pick, both sets of figures are better than the period 1998 to 2002 when the Rand was really rock bottom.

Productivity is rising, per capita incomes are up, consumers are getting richer, and we are creating jobs. Globalisation is taking its logical course and we are benefiting. Why give it all up now that the benefits are coming through?! Don't go wobbly now!