

Impact of Higher Protection

Individuals

- **Wages:** rises in targeted industries as they expand, demand for labour rises giving workers more bargaining power and vice versa
- **Consumption:** Spending on imports tend to fall as they become more expensive, buy domestic substitutes
- **Employment:** in the short-term it will increase the number of jobs available; however it is debatable whether it can be maintained in the long-term.
 - Despite possible lower levels on unemployment, it is arguable whether the benefits compensate for the other economics costs incurred

Firms

- Shelter certain domestic industries from foreign competition
- Benefit in the short-term because they are able to grow competitively e.g. subsidies artificially reduce the costs of production, able to produce more for less
- **Winning firms:** firms that receive direct protection e.g. Australia's textile industry
 - Receiving assistance allows firms more effectively to compete with foreign rivals, so their profits increase as their foreign market share increases and they may be able to expand production
- **Losing firms:** firms in industries they are not protected; firms that become too dependent on protection – become less innovated and internationally competitive
 - Inefficiency: misallocation of resources as they are directed to targeted industries
 - Productive firms suffer at the expense of weak firms

Governments

- **Tariff Revenue:** tax imposed on revenues raises revenue, which can be reinvested in other parts of the economy
- **Inflation:** Imported inflation rises as import prices increase
 - Increases cost of production for firms to import inputs, thus causing cost inflation because rising costs is passed on to consumers
- **Efficiency:** protection distorts the allocation of resources (e.g. capita and labour) and thus causes inefficiency in the economy
- **International backlash:** benefits will be quickly wiped out by the international backlash
 - if Australia implements new protectionist policies, its trading partners would respond
 - rising profits in one industry would be matched by falling profits in another
 - results in strained political relations between countries

Impact of Lower Protection

Individuals

- **Wages:** initially real wage levels tend to fall, or rise more slowly because of the decline of certain industries
 - 'winning' industries expand, allowing wages in these parts of the economy to rise
- **Consumption:** Australian's tend to buy more goods from overseas and fewer locally-produced products
 - Benefits consumers as they generally have access to a wider variety of goods from around the world
 - Increasing living standards by increased variety and falling prices, which increases disposable income
- **Employment:** Unemployment rises in industries losing protection, which is partially offset by jobs created by growth in other parts of the economy

Firms

- Some firms benefit, while other inevitably contract

- **Winning firms:** firms that were not previously protected
 - A more level playing field, making it easier for other firms to attract more investment and better workers, and therefore expand and become more efficient
 - Firms relying on imported goods also benefit as imports are cheaper – falling cost of production
- **Losing Firms:** industries who were previously protected
 - Dependent firms now face tougher competition from foreign rivals
 - Lowered protection could result in the collapse of whole domestic industries

Governments

- **Government Finances:** removal of tariffs means a loss of a revenue source; however for Australia, it does not affect us so much but reducing subsidies would save the government money
- **Inflation:** reduction in imported inflation because of cheaper import
 - Flow-on effects to reduce cost inflation (falling production costs for Australian firms importing inputs)
- **Efficiency:** Generally, reducing protection boosts efficiency esp. in the long-term as the economy adapts
 - Efficient allocation of resources – capital and skilled labour
 - Domestic firms become more exposed to foreign competition, forcing them to become more competitive – encourages innovation

Impact of Higher Foreign Protection

- Australia is negatively affected
- **Increased protection by governments:** problematic for Australia if it is an important trading partner esp. during economic crisis when governments focus on national economic sustenance e.g. GFC 2009 American stimulus for domestic products only
- **Increased protection by trade blocs:** wider impacts than actions of one governments because it makes it difficult for non-member countries to compete

Individuals

- **Wages:** in affected industries fall (firms decline = less demand for labour, less bargaining power = lower wages)
- **Consumption:** as real wages decline, the level of household expenditure will fall
 - One upside is that subsidies may actually reduce the price of imports
- **Unemployment:** likely to rise in Australian firms as they become less competitive

Firms

- Australian firms suffer as foreign companies become more artificially competitive
- Loss of worldwide market share, and more difficult to compete with imports domestically
- Contraction in Australian firms makes it even more difficult for them to remain competitive & bounce back

Governments

- **Major economic objectives:** would mostly suffer
 - Economic growth is constrained by declining Australian industries, unemployment rises and inequality intensified (as skilled workers are more likely to maintain jobs and avoid wage cuts)
 - Economy's external position would be harmed
 - Fall in exports worsens the CAD
 - Small upside: the removal of some inflationary pressures as imports should become cheaper
- **Current Policy Settings:**