Closed borders are the 'new protectionism'

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This year's Budget Papers made the assumption – which the Government was keen to emphasize *was* an assumption, and *not* a promise or a forecast – that Australia's international borders will remain closed to (almost all) arrivals and departures until mid-2022.

This represents a further delay of about a year from what had been foreshadowed in the 2020-21 Budget. It means that Australia will lose 81,000 more citizens and permanent residents than had been assumed in last year's Budget; that we won't be receiving many foreign students or visitors for another year; and that those of us who would like to travel overseas (and who aren't sportspeople or Cabinet Ministers) won't be able to, for at least another year.

Closing Australia's borders to most arrivals from overseas (and requiring those who are 'allowed in' to quarantine) clearly has helped curtail the transmission of Covid-19 to Australia. It's obviously been easier for Australia, as an island nation, to do that than it would have been for countries who share land borders with neighbours.

It's less immediately obvious how preventing Australian citizens from leaving has contributed to keeping the virus at bay (other than, perhaps, reducing the demand for quarantine places from those who subsequently return). And this is something that very few other countries – and, to the best of my knowledge, no other democratically-governed countries – have done from the outset of the pandemic.

Nonetheless, it is something that appears to have enjoyed widespread public support.

It's rather less widely acknowledged that the prolonged closure of Australia's international borders to (most) movements in both directions has made a significant contribution towards minimizing (or offsetting) the economic consequences of the virus, and of the various public health measures required to contain it.

There are two particular channels through which this has occurred.

First, while the losses experienced by Australia's tourism industry and education sectors as a result of the bans on inward travel have been widely recognized (and in the former, but not the latter, case, ameliorated to at least some extent by policy measures), far less attention has been given to the economic effects of the *fatwa* on overseas travel by all but a privileged few Australians.

In the twelve months to March 2020, foreign visitors (tourists, students and others) spent $66bn in this country (according to ABS trade statistics). In the twelve months to March 2021, foreigners (presumably, for the most part those who remained here after the borders were closed) still managed to spend $31bn here. That's a drop of $35bn – a not inconsiderable sum, to be sure.

But the same figures show that, whereas in the twelve months to March 2020 Australians spent almost $56bn overseas, in the twelve months to March this year they spent just over $1bn overseas – a decline of almost $55bn. That's $20bn *more* than the decline in spending by foreigners in Australia over the same interval.

That $55bn which Australians would have spent overseas during the first twelve months after the onset of Covid-19, if they'd been allowed to, hasn't disappeared into thin air.

Some of it, to be sure, may have been saved, and thus be part of the $134bn increase in bank deposits that households accumulated over this period. But there's a lot of evidence to suggest that most of it has been spent within Australia.

In particular, Australians have been spending more on their homes: retail trade statistics show that spending on hardware, building and garden supplies in the twelve months to March was $4.3bn (22%) higher than in the preceding twelve months; spending on electrical and electronic goods was up by $4.0bn (18.6%); and spending on furniture, floor coverings, housewares and textile goods was up by $2.9bn (20%).

In these enhanced surroundings, Australians have been drinking more booze: spending at liquor stores was $3.3bn (25.6%) higher in the twelve months to March this year than in the preceding twelve months.

And after a lag (partly due to enforced store closures), Australians have been spending more on themselves: in the six months ended March, spending on clothing was $1.4bn (16%) higher than in the six months to March 2020; while over the same interval spending on pharmaceutical, cosmetic and toiletry goods was up by $0.5bn (13%).

Australians have also been spending a lot more on cars. In the six months to March this year, bought 49,000 more cars than they did in the six months to March 2020, according to FCAI statistics.

And finally, local governments approved $1.4bn more worth of renovations to existing dwellings in the six months ended March this year than they did a year earlier, an increase of more than 31%.

Based on pre-pandemic trends, it's hard to believe that these increases in domestic spending would have occurred if Australians had been permitted to spend overseas the $55bn (or probably more, given that that this spending had been growing at an average annual rate of more than 10% during the five years before the onset of Covid) that they would have chosen to, had they been free to.

The second channel through which the prolonged closure of Australia's international borders has enhanced economic outcomes is the labour market.

Over the decade prior to the onset of the pandemic, Australia's civilian working-age (that is, aged 15 and over) population grew by an average of 26,000 a month. Abstracting from changes in labour force participation, that meant that employment needed to increase by at least 16,000 a month, on average, in order to reduce the unemployment rate.

As it happened, that's more or less the pace at which employment did grow between 2009 and 2019 – with the result that the unemployment rate was virtually unchanged, at just over 5%, over the course of this decade.

But since October last year, the working-age population has been growing at an average of just under 9,000 a month: which (again assuming an unchanged participation rate) means that employment needs to grow by an average of only about 5,500 a month to keep the unemployment rate on a downward path.

True, we're not getting the spending that migrants, tourists and students would otherwise have undertaken, and the job creation which that would have induced.

But that is more than offset by the diversion to the domestic economy of the spending that Australians would have undertaken overseas, had they been permitted to do so.

And so the closure of our international borders makes it more likely that we will reach the Government's (and the Reserve Bank's) implicit 'target' of an unemployment rate of 4½% or lower, sooner than either of them have suggested.

So what's not to like about that?

Australia has some 'form' when it comes to forcing its citizens to spend on domestically-produced goods money that they would have preferred, if allowed, to have spent on foreign-produced goods (and services).

We used to call it 'protection'. We did it for almost ninety years, from Federation until the late 1980s, when it finally dawned on us that the short-term gains from creating jobs in manufacturing were outweighed by the longer-term erosion of our living standards, relative to those in other countries which chose different economic development strategies. And our leaders, of both major political persuasions, chose to abandon that strategy despite the fact that it remained popular with a large proportion of the electorate.

Opinion polls tell us that a large majority of Australians support the continued closure of our borders – as they used to, until the 1960s, to non-European immigrants, and until the late 1980s, to imported goods and services.

For that reason, perhaps or perhaps not among others, the Prime Minister seems to have changed his mind about the wisdom of staying "under the doona" – at least, presumably, until after the election due before no later than 21st May next year (which just happens to be about six weeks before the date on which the Budget assumes Australia's borders might re-open).

But unless we want to return to the steady path down the international ladder of relative living standards which we trod for the first nine decades of our existence as a nation, we need to work towards the earliest possible re-engagement of our economy with that of the rest of the world.