

A NEW FORM OF 'PROTECTIONISM' – AUSTRALIA'S PROLONGED BORDER CLOSURE

PRESENTATION TO A 'WEBINAR' ON www.saul-eslake.com

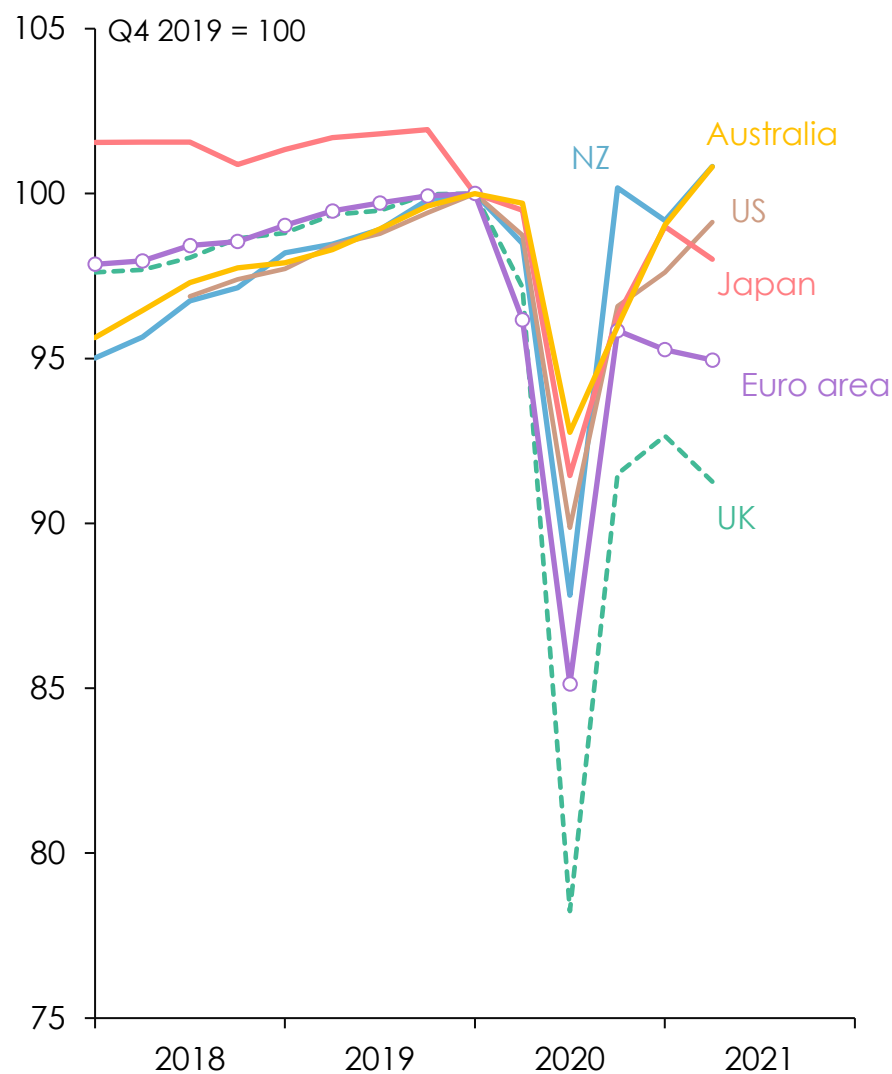
24TH JUNE 2021

SAUL ESLAKE

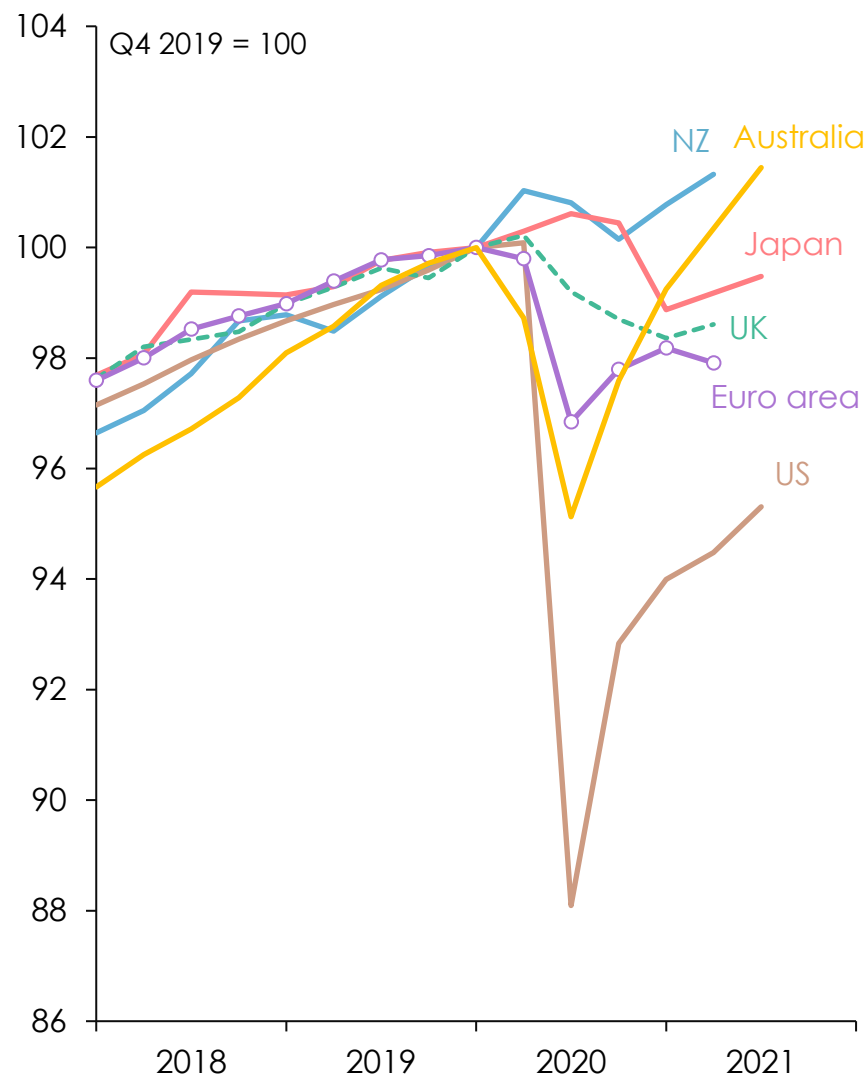
CORINNA ECONOMIC ADVISORY PTY LTD

Australia's recession hasn't been as severe as those experienced in most other comparable countries ...

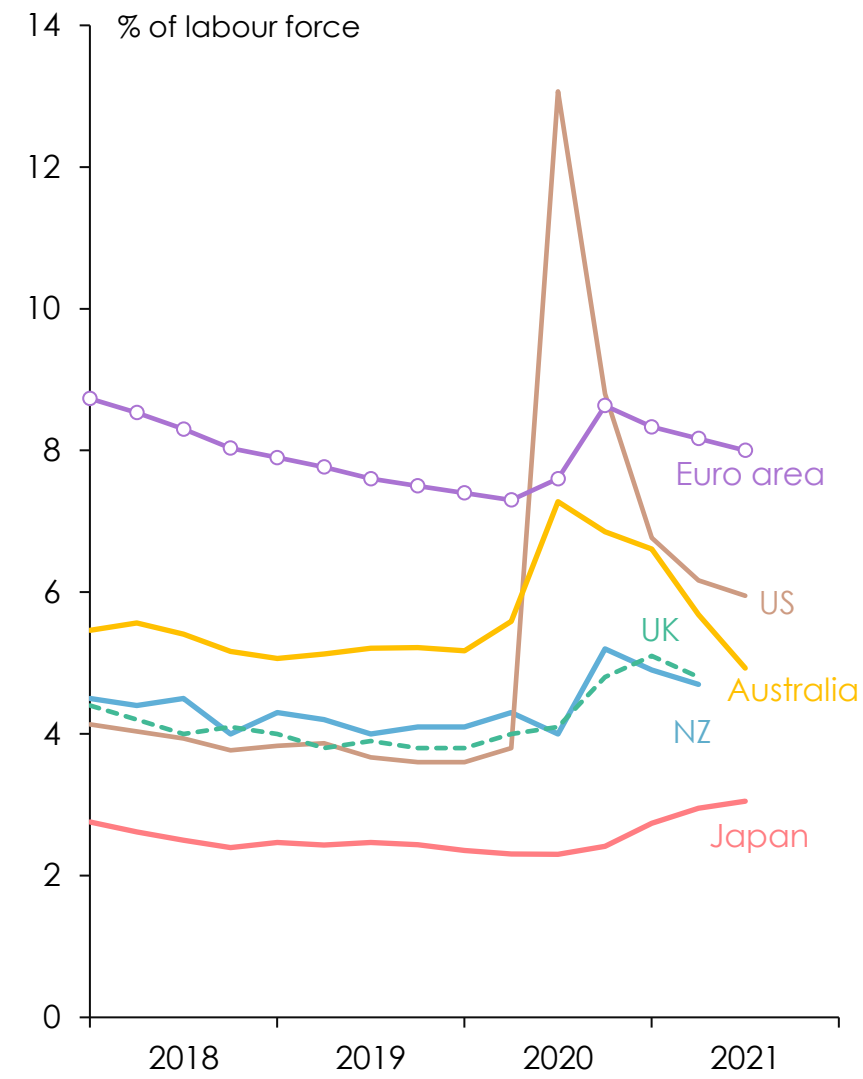
Level of real GDP



Employment



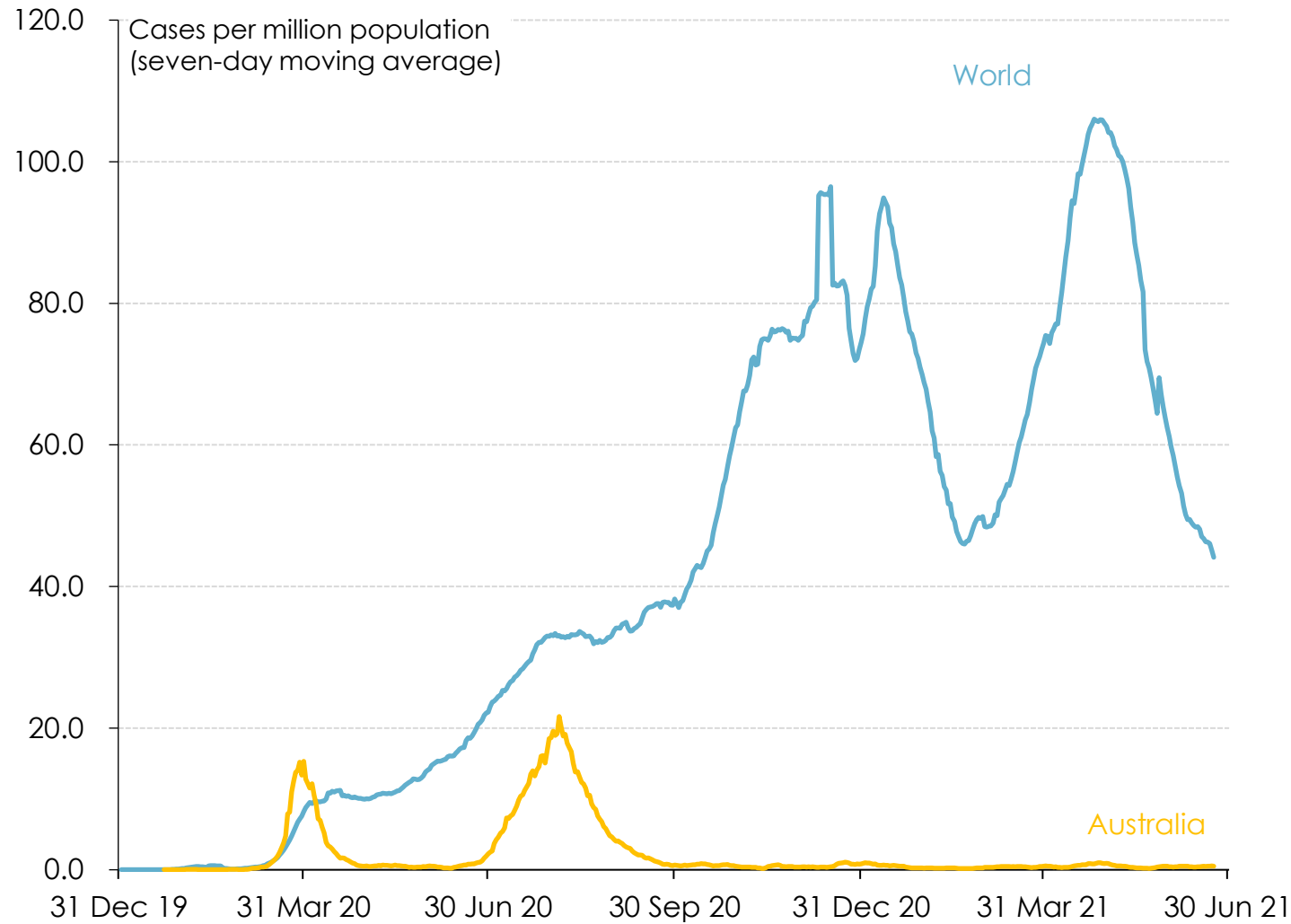
Unemployment



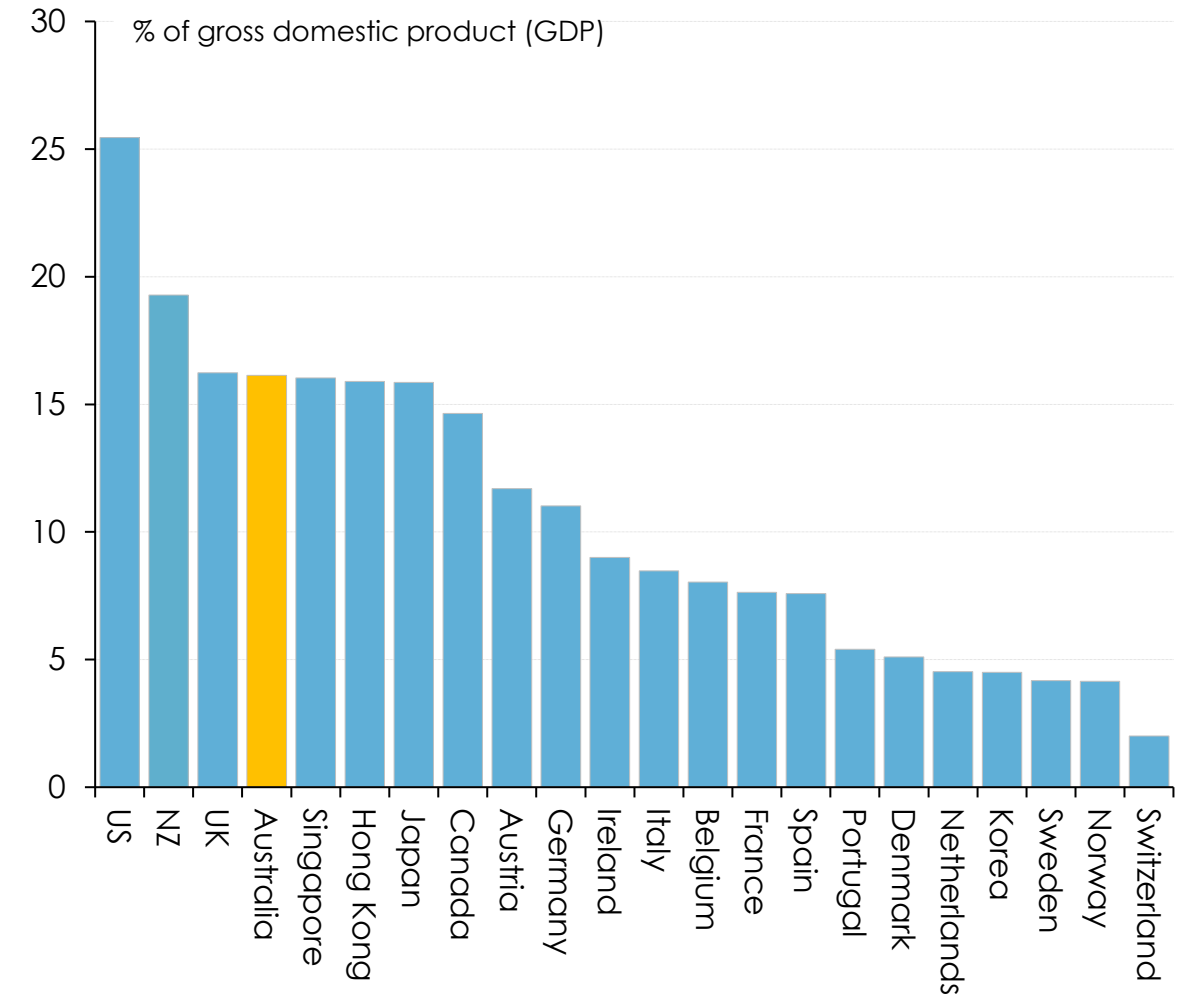
Sources: ABS; Statistics NZ; US Bureau of Economic Analysis; US Bureau of Labor Statistics; Japan Economic & Social Research Institute; Statistics Bureau of Japan; Eurostat; UK Office for National Statistics; Corinna.

... that's because we've done a better job than most others of managing the virus – and because governments have provided more fiscal support

New covid-19 infections, Australia compared with the world



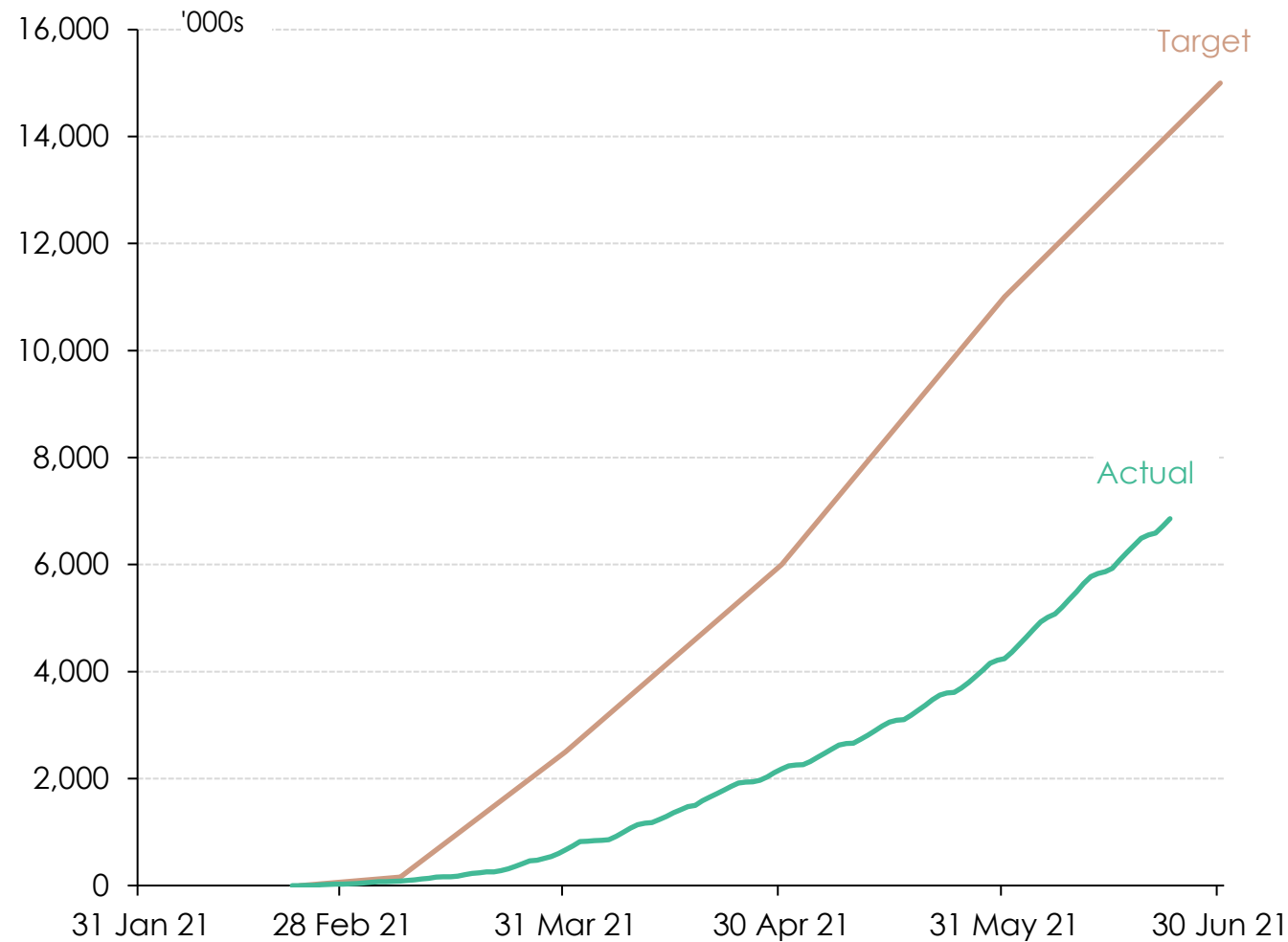
Fiscal policy responses to Covid-19 – selected 'advanced' economies



Sources: University of Oxford, [Our World in Data](#) (data up to 23rd June); IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#), April 2021 (includes measures announced up until 17th March 2021).

The number of Australians getting vaccinated has picked up in recent weeks but the proportion is still only 27% (and fully vaccinated less than 3½%)

Number of vaccine doses administered vs Government target



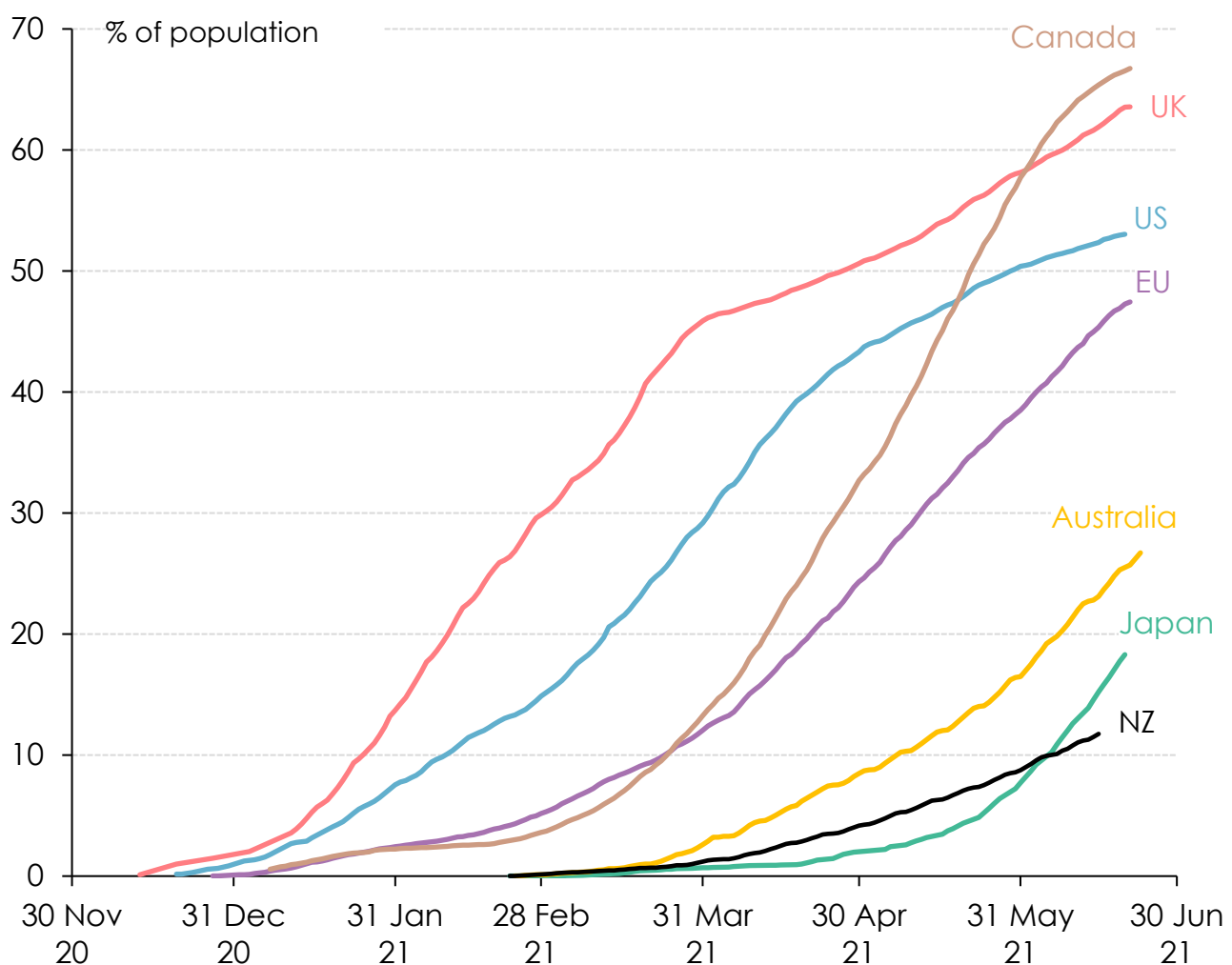
Percentage of population vaccinated, states and territories



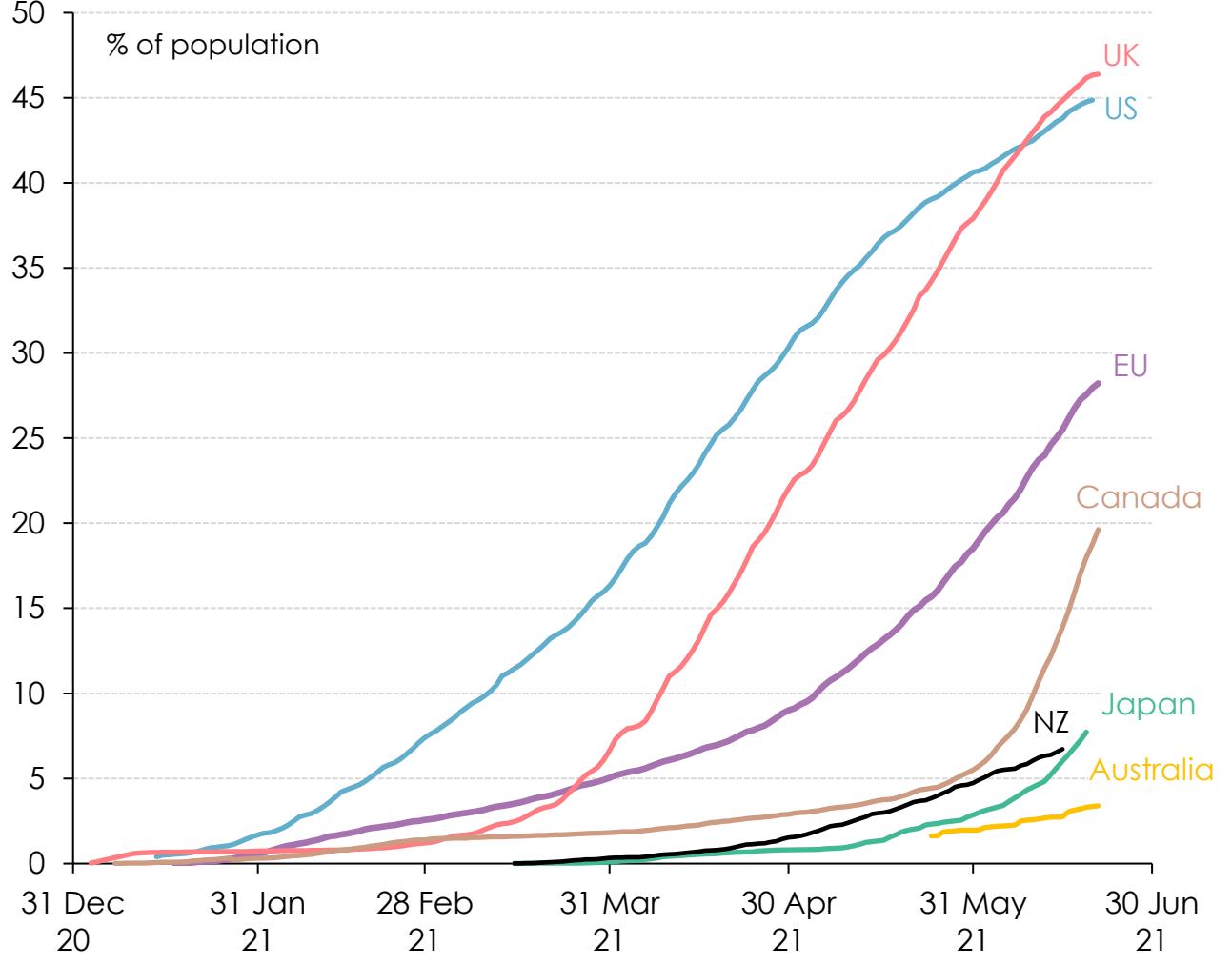
Note: Data up to 23rd June. Sources: covid19data.com.au; Australian Department of Health, [COVID-19 vaccine rollout update on 14 March 2021](#).

However, we haven't done nearly as well as other, similar, countries in getting our population vaccinated

Percentage of major 'advanced' economies' populations who have had one shot



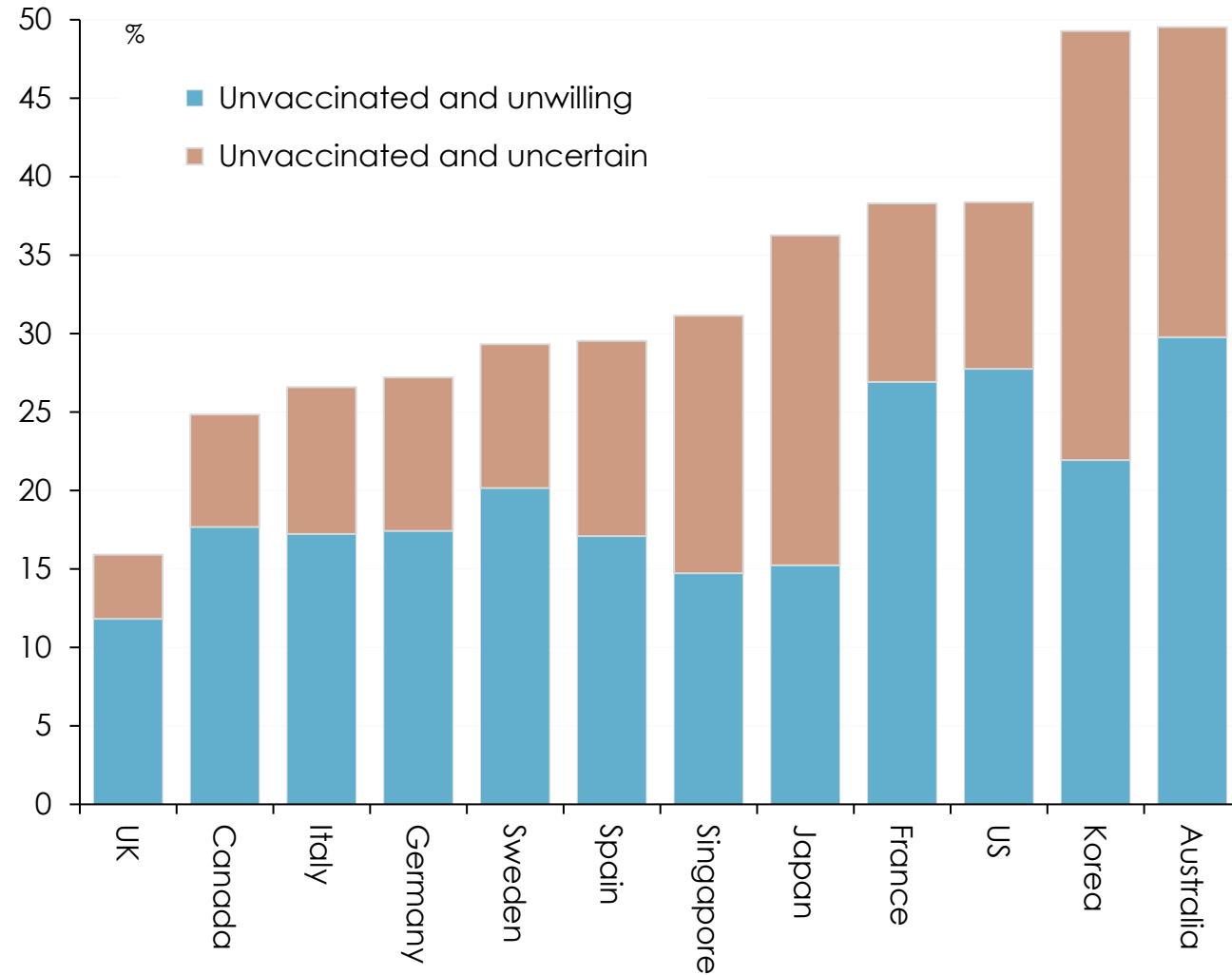
Percentage of major 'advanced' economies' populations who have had two shots



Note: Data up to 22nd June, except for New Zealand, 15th June. Sources: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#); [covid19data.com.au](#).

'Vaccine hesitancy' is a barrier to returning to 'normal' – and Australia has the highest vaccine hesitancy out of 12 'advanced' economies

Covid-19 vaccine hesitancy, selected 'advanced' economies, May 2021



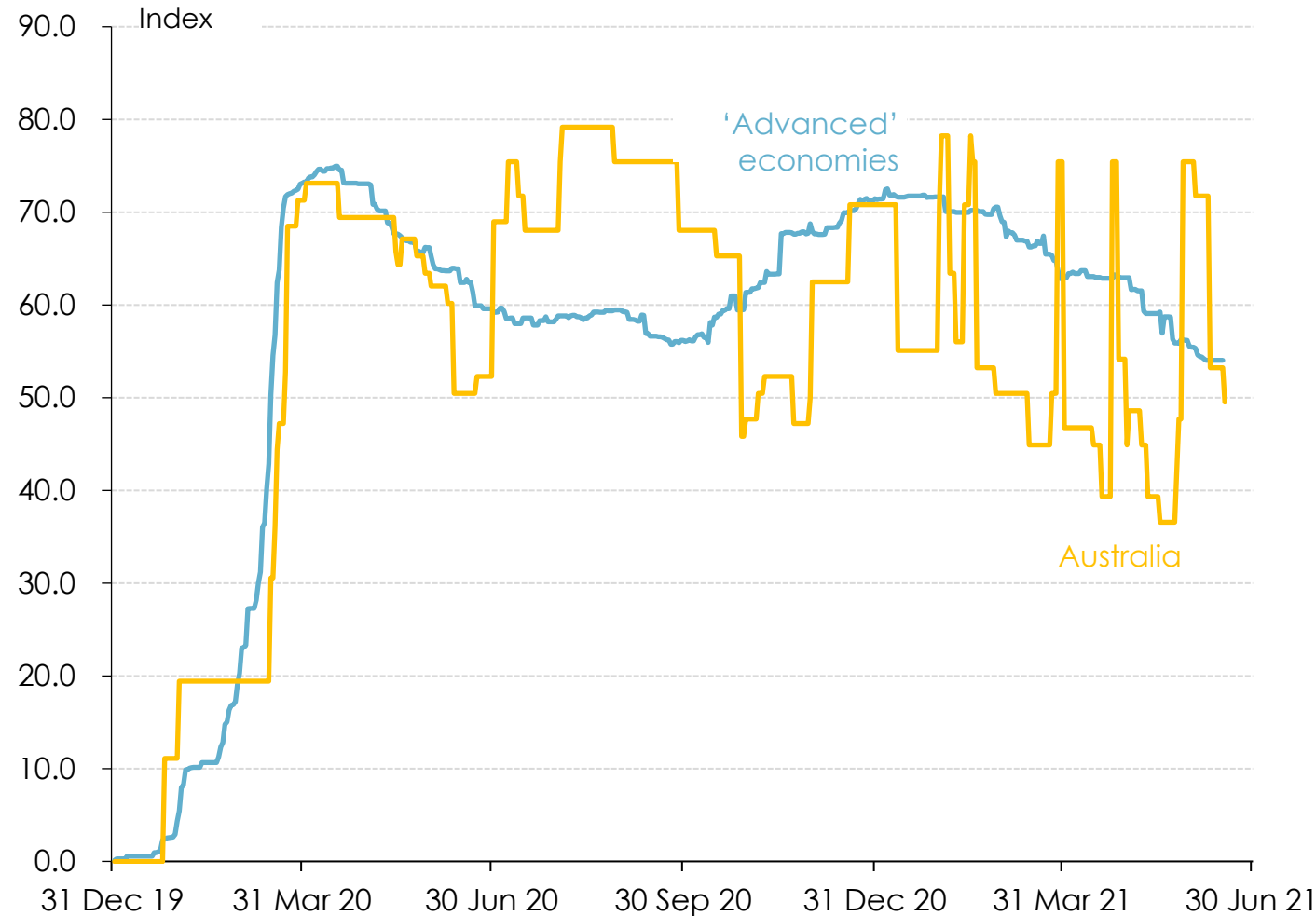
Australians 'strongly agreeing or agreeing' that they would get a vaccine when available



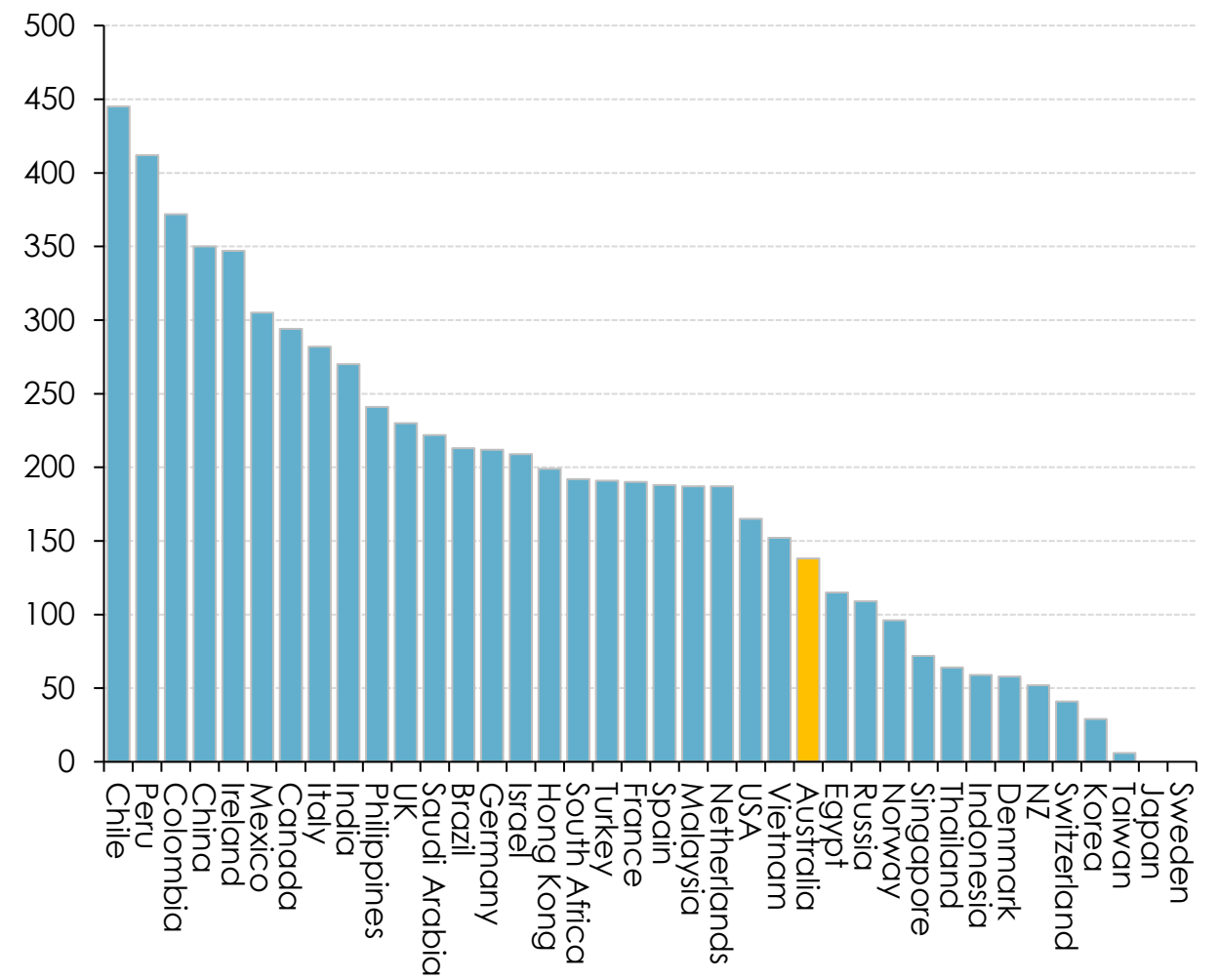
Sources: Imperial College London and YouGov, [Covid 19 Behaviour Tracker Data Hub](#); ABS, [Household Impacts of Covid-19 Survey](#), May 2021.

Australia's restrictions have been somewhat less stringent than in most other 'advanced' economies, on average ...

Stringency of Covid-19 restrictions in Australia compared with other 'advanced' economies



Number of days stringency of restrictions above 70 on Oxford index



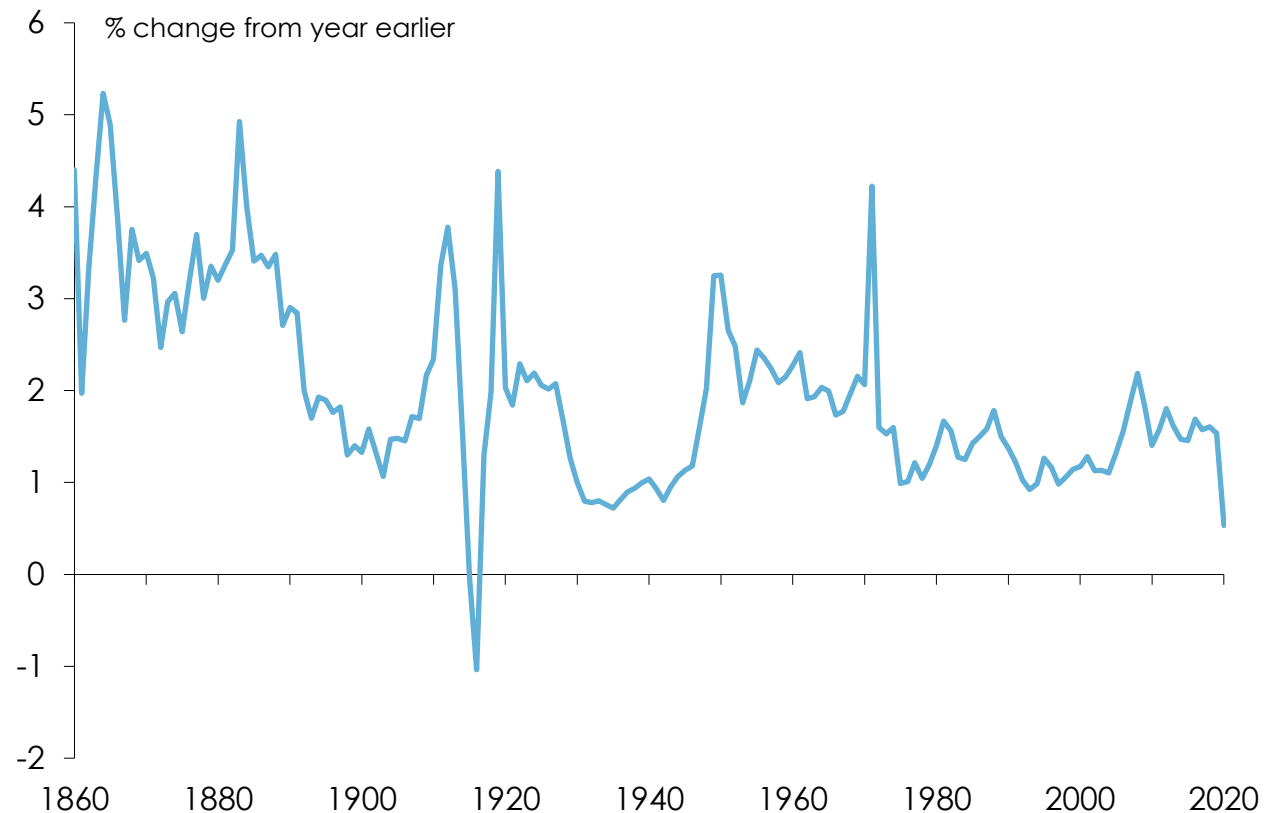
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school & workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic & international travel restrictions, public information campaigns, testing and contact tracing. 'Advanced economies' is a GDP-weighted average of measures for the US, Canada, Japan, Korea, Hong Kong, Singapore, Germany, the UK, France, Italy, Spain, Netherlands, Switzerland, Sweden, Norway and Ireland. Source: [Blavatnik School of Government, Oxford University](https://blavatnikschool.org/). Data up to 18th June.

... but Australia's border measures have been stricter than almost any other country (and certainly any democracy)

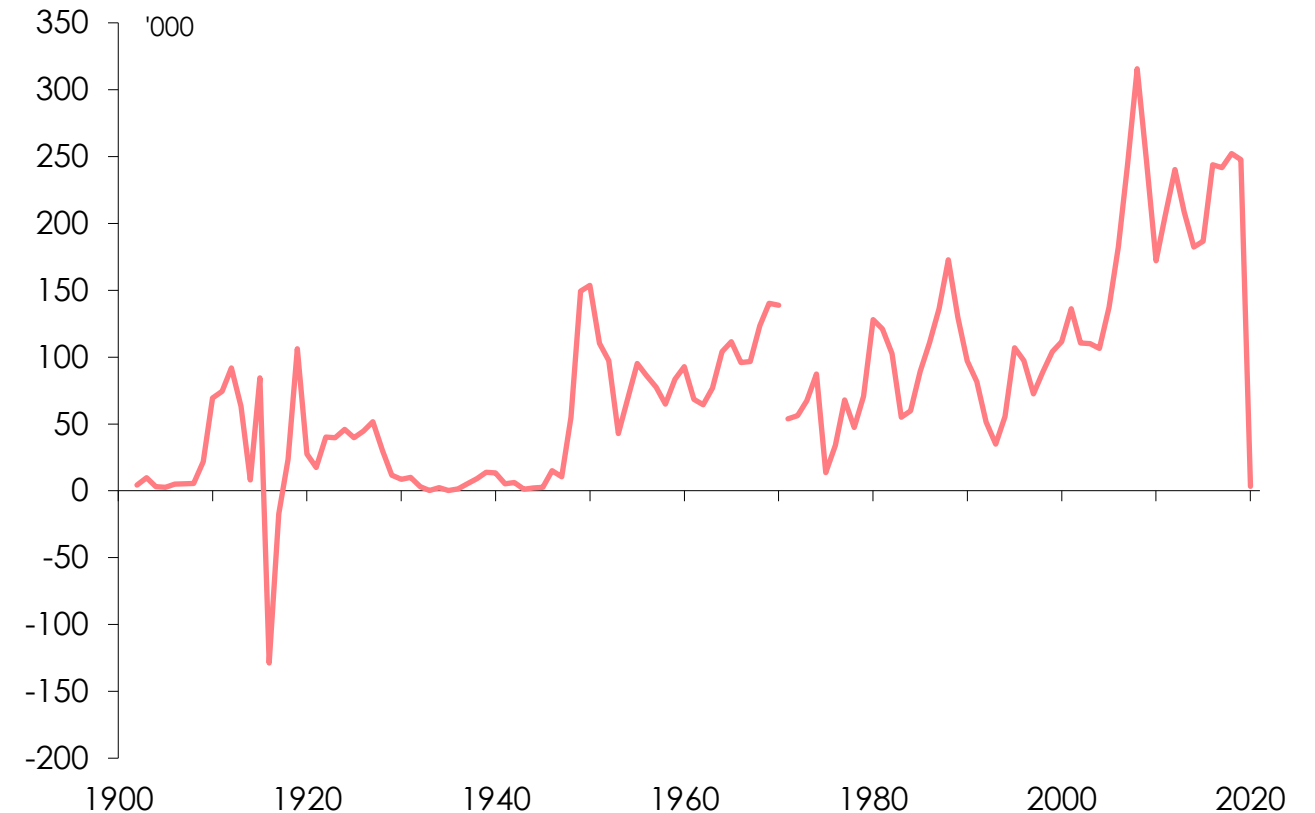
- ❑ Article 12 of the United Nations [International Covenant on Civil and Political Rights](#) (which Australia signed in 1972, and which it ratified in 1980) says
 - “everyone shall be free to leave any country, including his [sic] own” and “no-one shall be arbitrarily deprived of the right to enter his [sic] own country”
- ❑ Australia is [the only democracy in the world](#) not to have enacted this Convention into domestic law
- ❑ The ICCPR does include a couple of ‘get out’ clauses
 - Article 4 provides that “In time of public emergency which threatens the life of the nation and the existence of which is officially proclaimed [parties to this Convention] may take measures derogating from their obligations under [it] to the extent strictly required by the exigencies of the situation”, and
 - Article 12 provides that the rights to leave a country (or to move within it) “shall not be subject to any restrictions except those which are provided by law, are necessary to protect national security, public order, public health or morals or the rights and freedoms of others” – although this exclusion doesn’t apply to the above-mentioned right to enter one’s own country
- ❑ No other democracy appears to have availed itself of these ‘get-out’ clauses to the extent that Australia has
 - The Federal Court [decided](#) in May this year that the Federal *BioSecurity Act* over-rode any “rights of entry” into Australia that the ‘common law’ may otherwise confer on Australian citizens
- ❑ The widely-cited Oxford University index of the stringency of government Covid-related restrictions does not include outward travel bans or restrictions on citizens returning
 - according to [Toby Phillips](#), the Executive Director of the Oxford Government Response Tracker project, “we assumed countries would always let their own citizens return” and “we even wrote this into our training for data collectors, telling them to only focus on restrictions for non-citizens”
- ❑ Despite being highly unusual, Australia’s travel bans have been highly popular with voters
 - a [Newspoll](#) survey taken just after the Budget found that 73% of respondents agreed that “international borders should remain largely closed until at least mid-2022”

The closure of Australia's international border since March last year has resulted in the slowest population growth in 104 years

Australia's population growth, 1860 -2020



Net migration to Australia, 1900-20



- ❑ Only 76K immigrants came to Australia in the last nine months of 2020, while 151K people departed permanently – implying a net outflow of almost 68,000 people
- ❑ As a result, Australia's population growth rate fell to just 0.5% over the year to Q4 2020, the slowest since 1916
- ❑ Slower growth in the working-age population does however mean that a given rate of employment growth results in faster reductions in the unemployment rate (all else being equal)

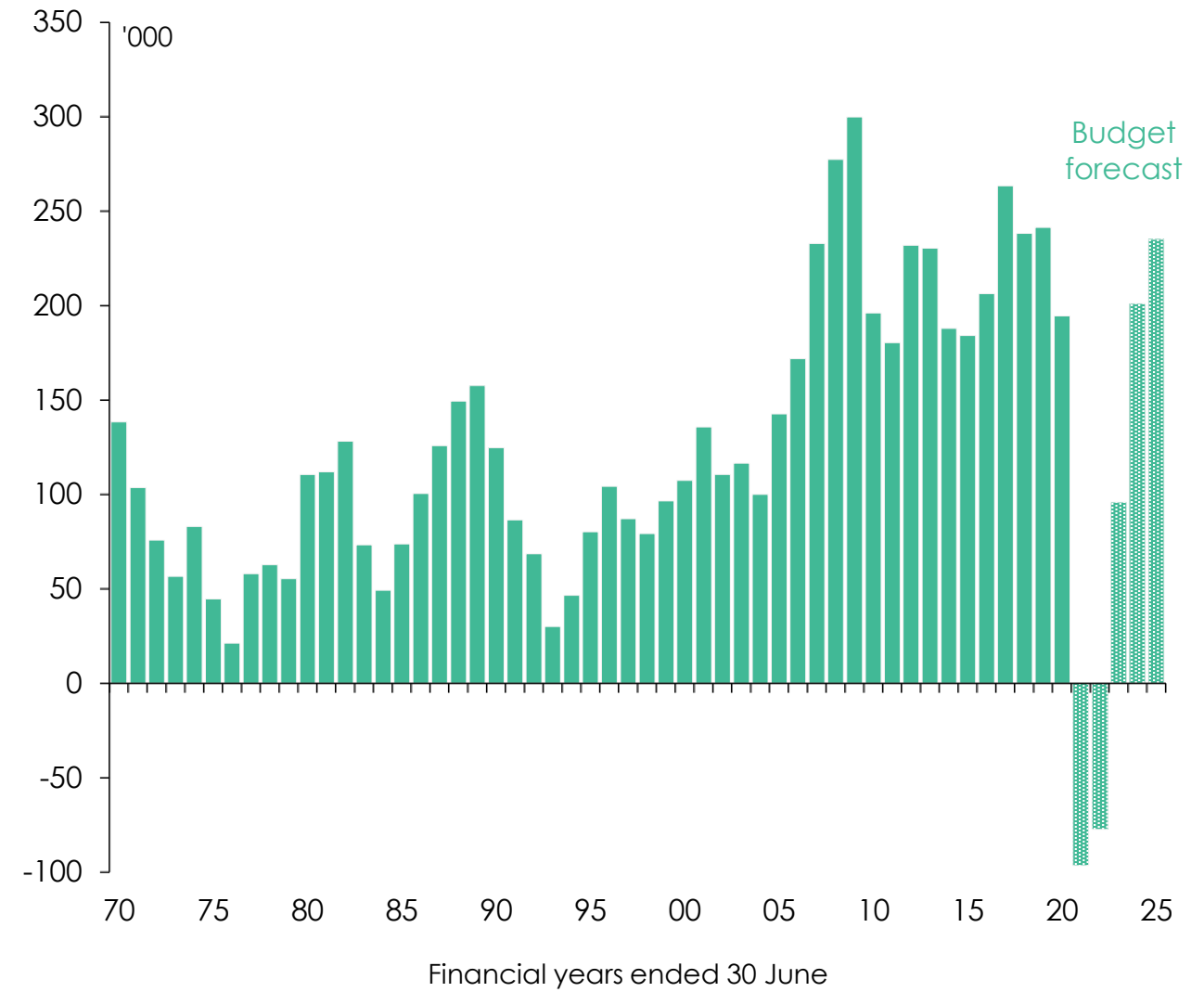
Note: The net migration data has a series break at 1971 due to definitional changes. Sources: ABS, [National, state and territory population](#), December 2020; [Historical Population](#), 2016; [Migration, Australia](#), 2019-20; [Demography Bulletin](#), 1923, 1940, 1950, 1960 and 1971; [Population and Vital Statistics Bulletin](#), 1912.

The Budget assumes that Australia's borders remain closed until after the next election – after which migration returns to pre-covid levels by 2024-25

Population growth

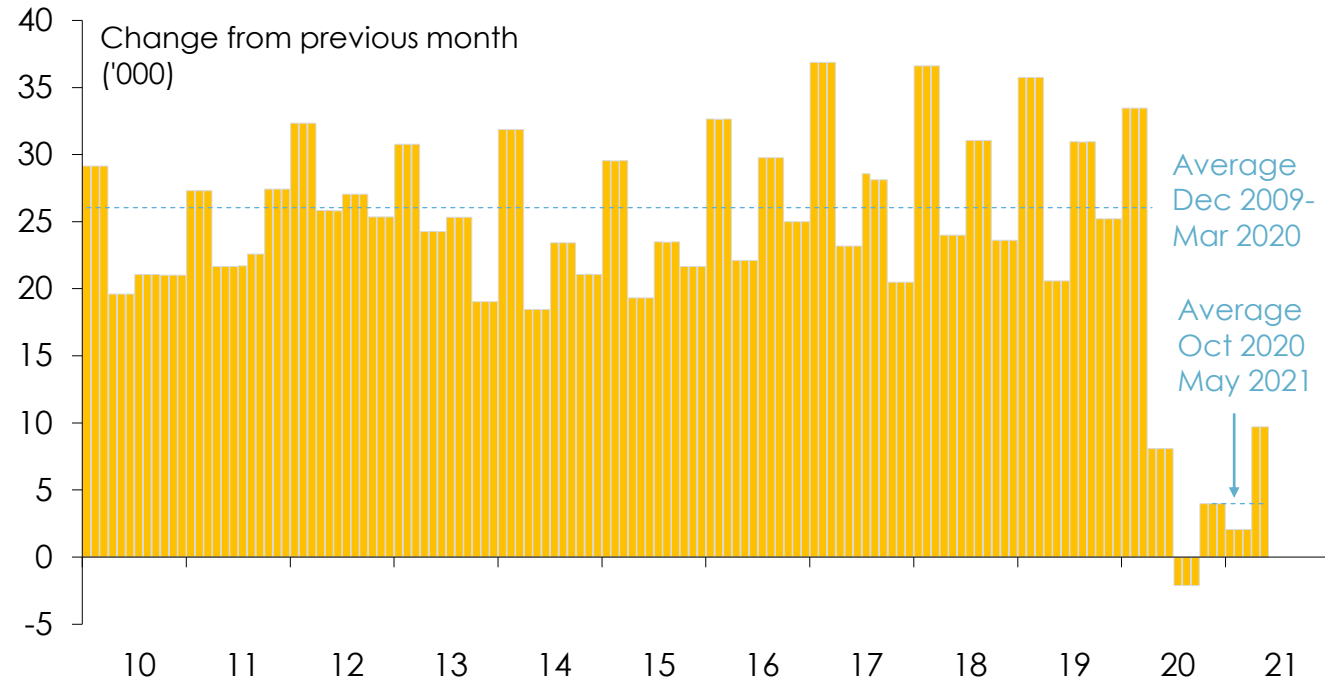


Net overseas migration



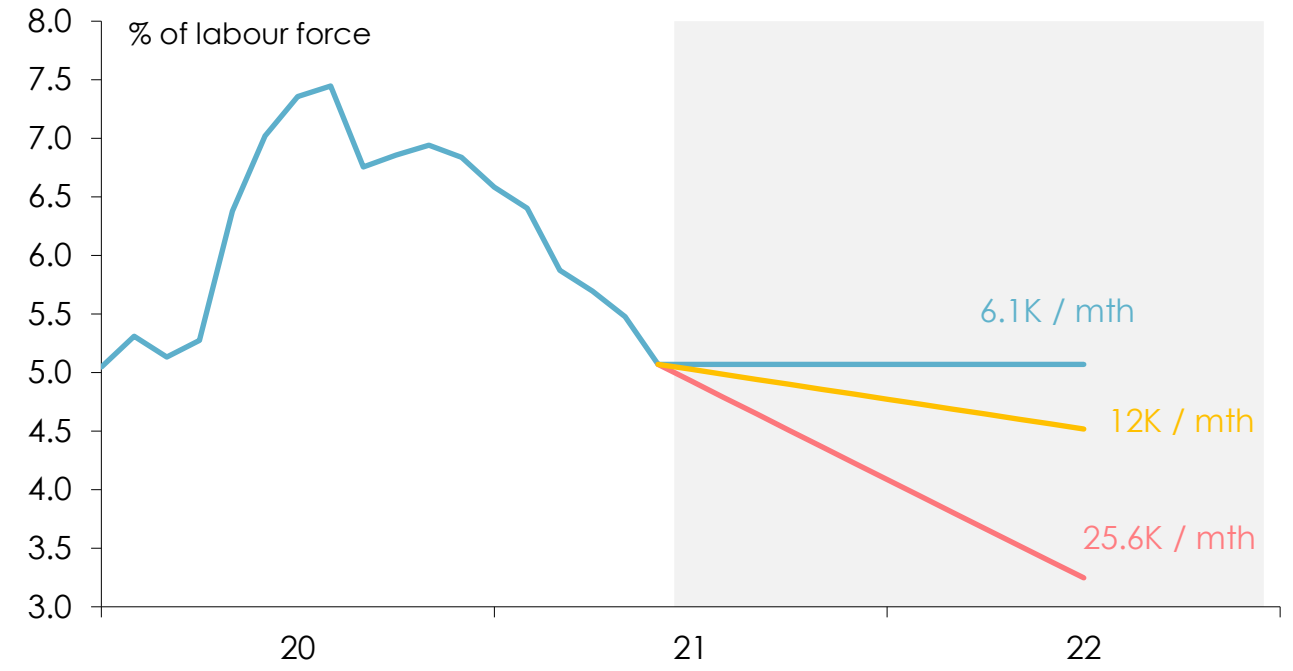
The closure of Australia's borders means that it's much easier to reduce unemployment for any given rate of jobs growth

Monthly growth in civilian working-age population



- Over the decade prior to the onset of Covid-19, the civilian working-age population (people aged 15 and over) grew by an average of 26K a month – meaning that 16½K new jobs a month, on average, were required to keep the unemployment rate constant (assuming an unchanged participation rate)
- But since last October, the working-age population has risen by an average of less than 5K a month – which means that anything more than 3K new jobs a month will result in a fall in the unemployment rate, all else being equal

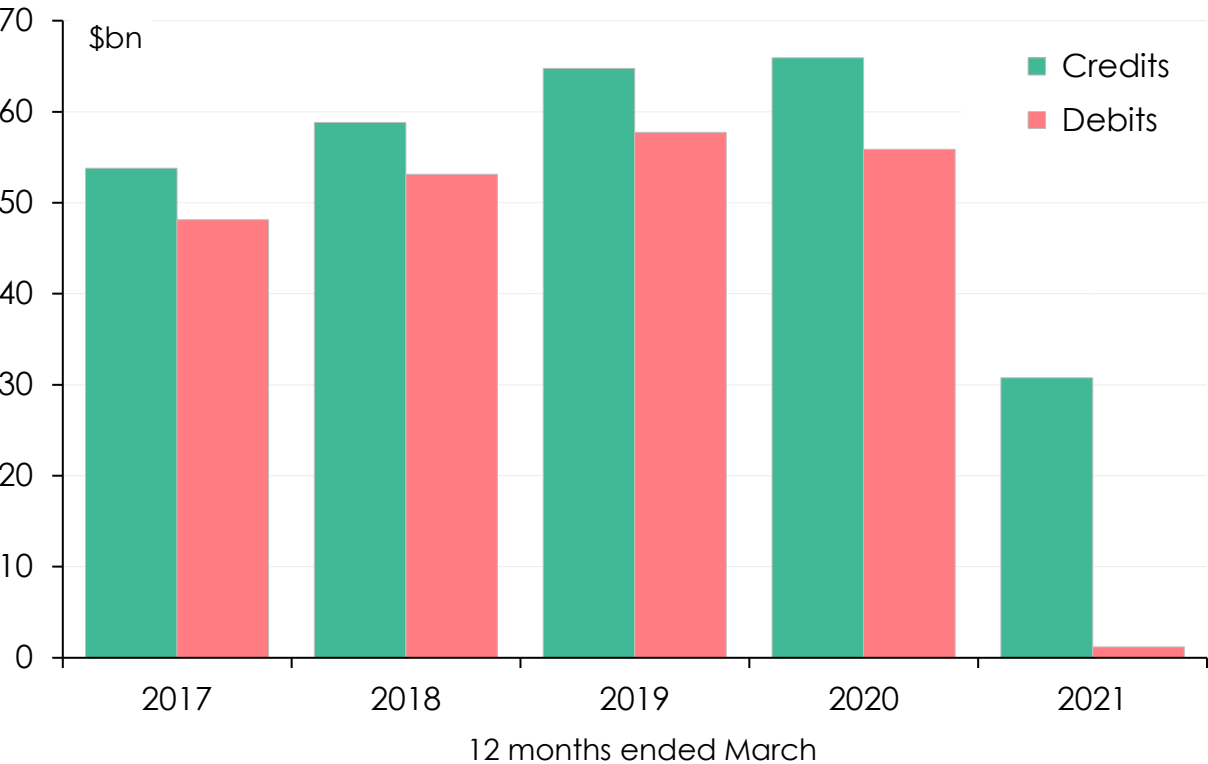
Unemployment rates for alternative rate of jobs growth



- Assuming the working-age population grows at the same rate as during the current quarter (ie 9.7K a month) and no change in the participation rate, employment growth of more than just 6.1K a month is sufficient to ensure further falls in the unemployment rate
- If employment continued to grow at half the pace so far this year unemployment would be down to 3¼% by June next year - 12K a month is all that's required to get to 4½% by next June

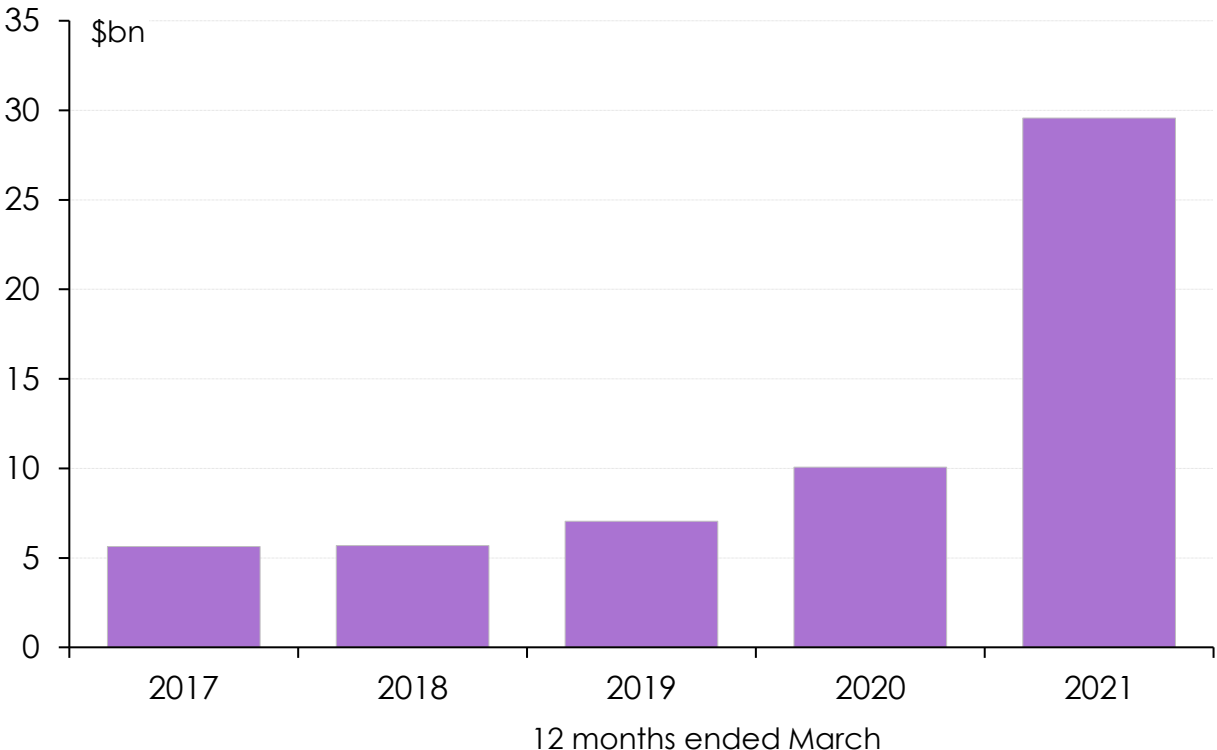
The ban on Australians (apart from Ministers & sportspeople) travelling abroad more than offsets the loss of spending by foreign tourists & students

Travel credits and debits



Over the four years to March 2020, Australians spent an average of \$54bn per annum on overseas travel – as against just \$1bn spend in that way over the 12 months to March 2021, ‘freeing up’ a large amount which appears to have been spent in other ways (electronics, household goods, clothes, cars etc.)

Net travel transactions

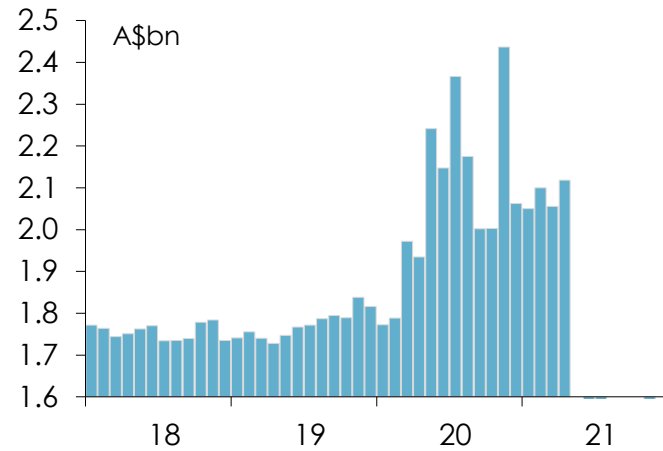


Despite restrictions, foreigners still spent \$31bn in Australia in the 12 months to March 2021 (cf. an average of \$61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost \$22½bn by comparison with the 2016-19 average – equivalent to about 1¼% of GDP

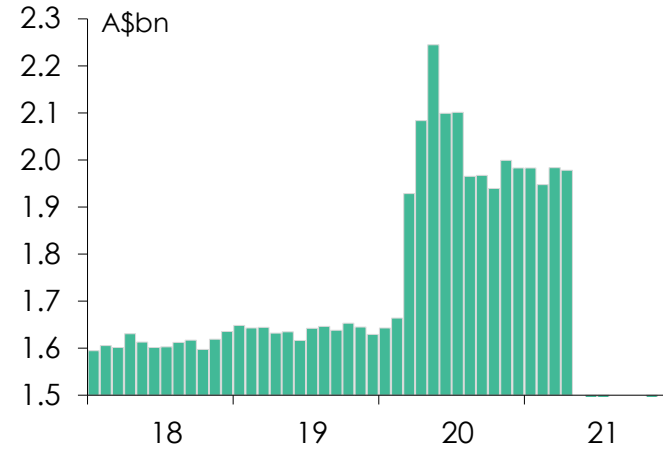
Source: ABS, [International Trade in Goods and Services, Australia](#), March 2021.

The >\$50bn per annum that Australians would have spent overseas if they'd been allowed to has instead been spent at home

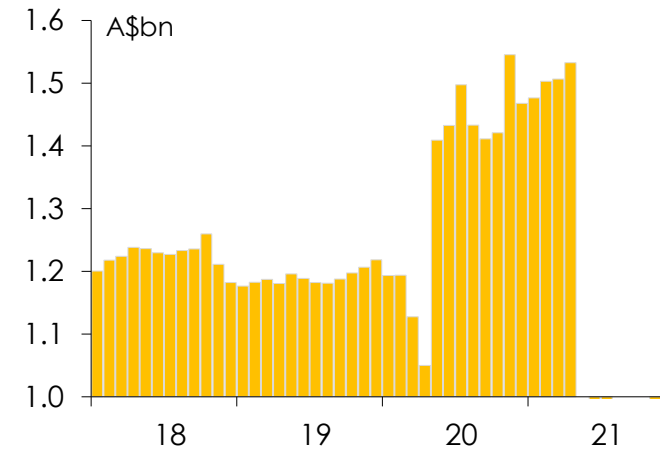
Electronic & electrical goods



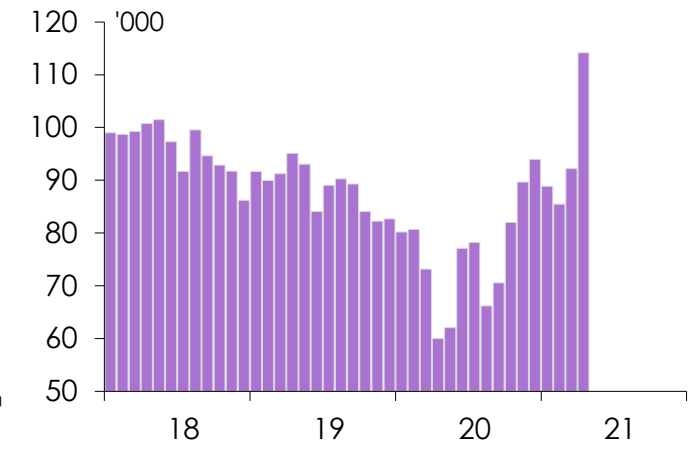
Hardware, building & garden supplies



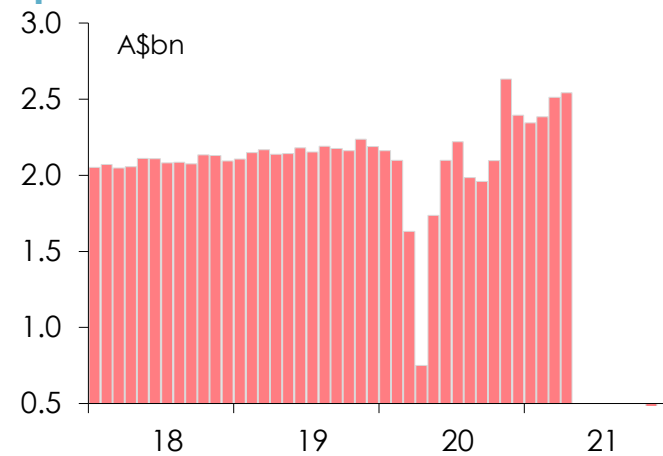
Floor coverings, furniture, housewares etc



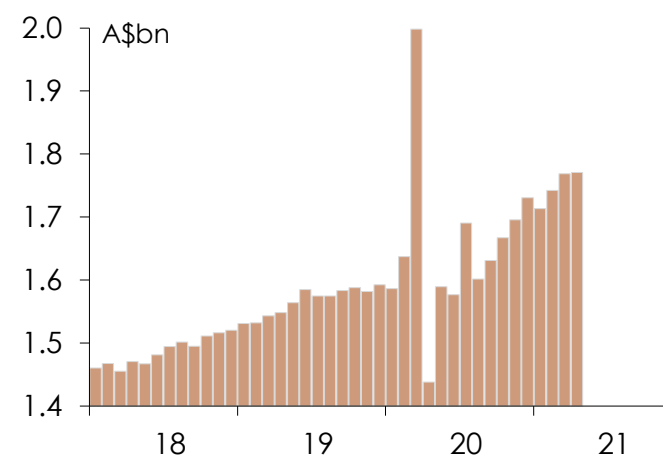
New motor vehicles



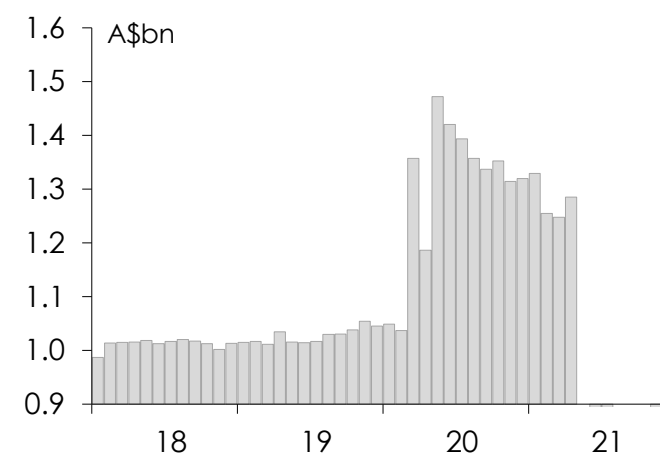
Clothing, footwear & personal accessories



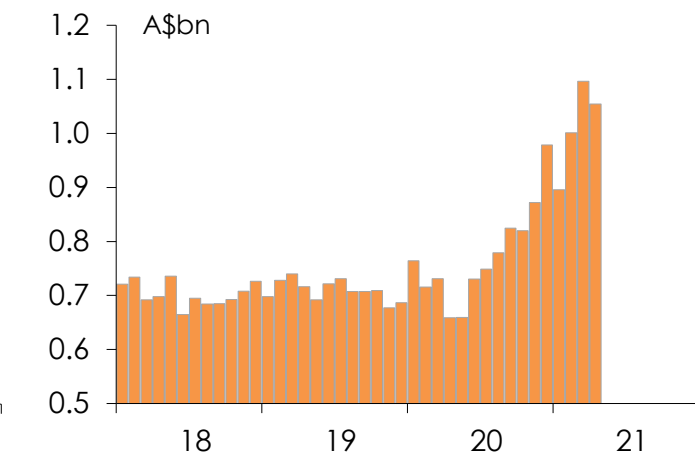
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Renovations



Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. Sources: ABS, [Retail Trade, Australia](#), April 2021; [Building Approvals, Australia](#), April 2021; Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of Vfacts data by Corinna).

What does all this mean for the Reserve Bank?

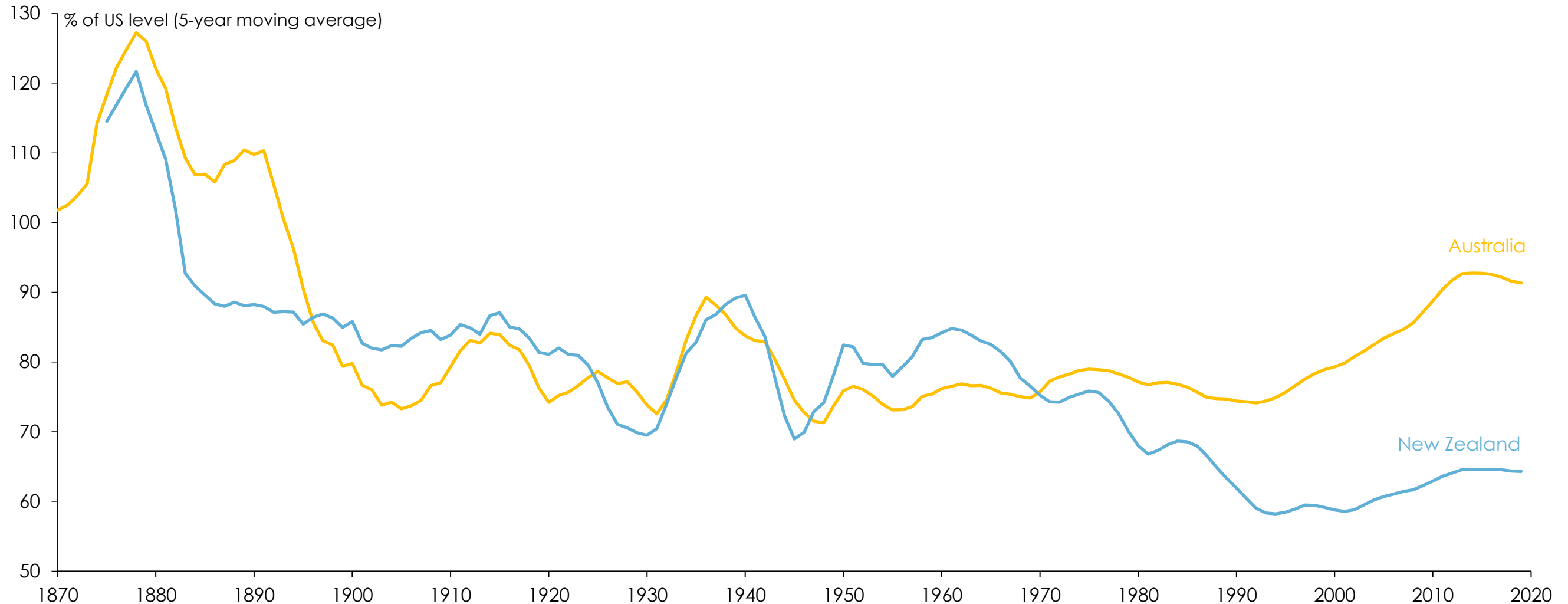
- ❑ The Reserve Bank has repeatedly stipulated that it will keep its official cash rate at the current record low (of 0.1% pa) until
 - the labour market is sufficiently tight (ie, unemployment is sufficiently low)
 - ... to generate wages growth which is sufficiently strong
 - ... to push 'underlying' consumer price inflation sustainably into the 2-3% target range
- ❑ The RBA (like other central banks) has been quite open in acknowledging that it is no longer sure exactly how low unemployment needs to go before wages growth begins to accelerate to a pace sufficient to push inflation into the target range
 - hence it has indicated that its decision as to when to start lifting interest rates won't be based (as they have been in the past) on staff *forecasts* of inflation ...
 - ... but rather will be based on what happens to *actual* inflation (the 'lived experience' of inflation, as Deputy Governor Guy Debelle puts it)
- ❑ Given that inflation has 'undershot' RBA forecasts for more than five years, this is an absolutely reasonable position for the RBA to adopt – and it is similar to the stance taken by other central banks over the past year
- ❑ However the RBA has gone further than most other central banks in putting a date ("2024 at the earliest") on when the conditions for beginning to 'normalize' monetary policy will be satisfied
 - the protracted closure of Australia's borders makes it increasingly likely that those conditions will be satisfied much sooner than 2024
- ❑ A growing number of central banks elsewhere in the world have either already begun to raise rates (Brazil, Russia) or have signalled that they will start raising them (Norway H2 this year, Canada and NZ H2 next year, US 2023)
- ❑ The Reserve Bank may have started to lay the groundwork for shifting its 'guidance' about the timing of the first rate increase with Governor Lowe's speech in Toowoomba last week

Prolonged closure of Australia's international border increasingly looks like a new version of 'protectionism'

- ❑ The 'protectionism' which Australia practiced from the time of Federation until the early 1990s used tariffs and quotas to force Australians to spend money which they would have preferred to spend on foreign-made goods (if they were free to do so) on Australian-produced goods instead
 - in the belief that this created jobs (particularly in manufacturing industry), reduced Australia's dependence on agriculture and mining, and enhanced our 'resilience' to external shocks (including in particular, wartime interruptions to foreign supplies of 'strategic' goods)
 - other 'advanced' economies began winding back their barriers to trade in manufactured goods after World War II, but Australia (and New Zealand) persisted with them, because other 'advanced' economies wouldn't also reduce their barriers to trade in agricultural commodities
- ❑ The end-result of Australia's persistence with high levels of 'protection' for its manufacturing industries was that they, and the economy more broadly, became increasingly inefficient, as productivity growth lagged behind the rates achieved in other 'advanced' economies
 - Australia's per capita GDP (a crude but widely-used measure of material living standards) declined from being (along with NZ and Argentina) the highest in the world in 1900, to being 26th in the world by the early 1990s
- ❑ Australia's border closures during Covid – which have been more comprehensive, and in place for longer, than in any other democracy – have much in common with Australia's earlier forms of 'protectionism'
 - they are in effect forcing Australians to spend at home on goods, money which they would have preferred, if they were free to do so, to spend overseas
 - and they are reducing the competition which Australians looking for work face from 'foreigners' (immigrants)
- ❑ As with the older forms of Australian 'protectionism', the new variant provides a short-term 'sugar hit' to the economy
 - but the longer this new variant of 'protectionism' remains in force, the more its longer-term costs and consequences will resemble those of the old sort

During the 'old protectionist era', Australian living standards slipped from over 10% above those of the US to more than 25% below

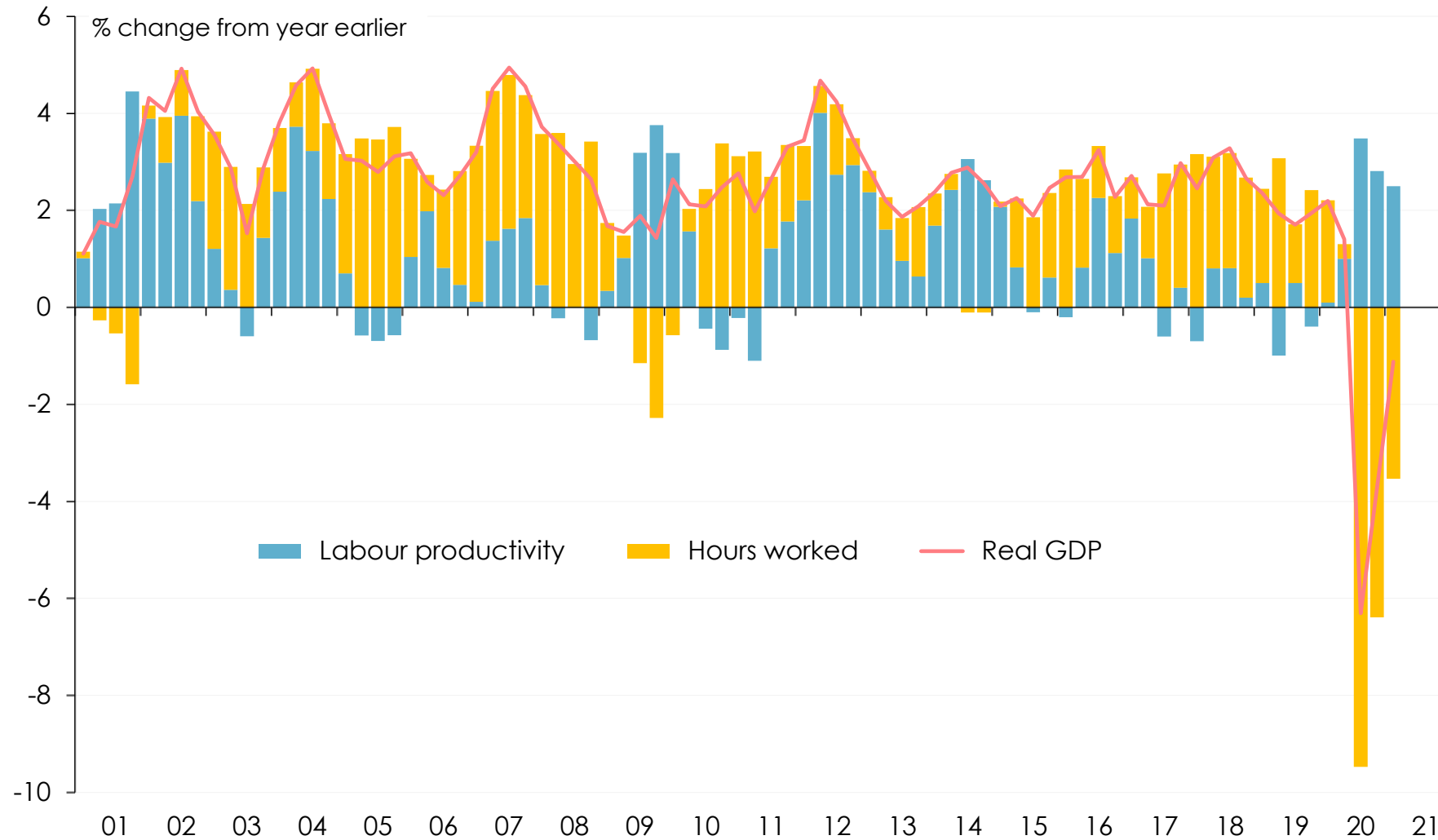
Australia and New Zealand per capita GDP as a percentage of the United States



Source: Maddison Historical Statistics, Groningen Growth and Development Centre, University of Groningen, [Maddison Project Database 2020](#); Corinna.

Australia has come to rely much more heavily on increased labour input to drive economic growth in recent years – we can't keep doing that

Labour input and labour productivity contributions to Australian real GDP growth



- Over the five years between the end of the 'mining boom' and the onset of the Covid-19 pandemic, 72% of Australia's real GDP growth came from increased labour input, and only 28% from labour productivity growth
- By contrast, between the end of the early 1990s recession and the onset of the global financial crisis, 46% of Australia's real GDP growth came from increased labour input and 54% from productivity growth

Q & A

This document has been prepared by Saul Eslake on behalf of Corinna Economic Advisory Pty Ltd, ABN 165 668 058 69, whose registered office is located at Level 11, 114 William Street, Melbourne, Victoria 3000 Australia.

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