



Bailouts beget push for federal patronage



The Modest Member
Scott Ryan

Forty years ago, Bert Kelly wondered whether we would all end up simply subsidising one another. At the time, Bert was attacking the impact of protection and the growth of government employment. The original Modest Member was a relentless campaigner against the benefits for some being paid for by the many.

Debates today are a bit different. As well as the broad liberalisation of the economy and virtual end of tariff protection, another great contribution of Bert and his successors has been bringing industry assistance in “on budget”.

No longer do we use tariffs and quotas. When the government announces support for preferred industries, the cost of favours and subsidies are usually much more transparent, as taxpayers’ funds are used directly.

In another piece outlining the debilitating impact of protection, Bert quoted from the seminal 1929 inquiry into tariffs, the Brigden report: “The most disquieting effect of the tariff has been the stimulus it has given to demands for government assistance of all kinds, with the consequent demoralising effect upon self-reliant efficiency throughout all forms of production.”

In recent months, it appears as if this trend has again resurfaced, as more and more industries seek financial support from government.

However, unlike in the past, when

claims were made solely against international competition, the basis of many of these claims today is impositions and costs that the government has itself imposed.

As part of the carbon tax package, the government brags about the compensation to industries it affects. In conceding that domestic production now faces government-imposed costs that international competitors do not, the Labor and Greens proponents of this tax are seemingly proud of the largesse the carbon tax has equipped them with to distribute to those they favour.

And favours there are aplenty.

Privately owned Victorian generators receive free permits, but many publicly owned generators elsewhere do not.

Over the past few days, we have read about bailout plans for an aluminium smelter in Victoria that appears to be specific to that business, but smelters elsewhere are closing without support.

The Clean Energy Finance Corporation has been established to provide finance for a select part of the energy industry, but with a ban on those types of technology that the Greens disapprove of.

The government argues this corporation will provide a commercial rate of return and thereby conveniently keep its cost “off budget” and therefore not add to its deficits. However, the very fact that it is targeted at projects that cannot secure commercial funding indicates it will pick losers. The eventual loser is, of course, the taxpayer who funds this largesse.

Regardless, the recipients of this substantial government patronage will receive support that their competitors are denied.

Further, in recent months we have learnt that decisions to make company-specific grants to Ford and Holden have been made without any consistent criteria. Indeed, the money used has come from funds that the car companies themselves failed to earn due to not meeting the goals of existing support programs.

The Treasurer boasts about redistributing wealth and resources from successful industries, such as mining, to sectors that are either not as successful or are facing difficulties. It has even been reported that this is the Treasurer’s political purpose, to help win back Labor’s base.

The real long-term risk of this is that companies will again see patronage from government as the path to success. This is one of the most insidious aspects of the carbon tax: the bidding war for favouritism and patronage in the guise of “compensation”.

Not only does it cost the great majority, through taxes rather than tariffs, it also directs scarce capital and labour to less productive uses as government patronage becomes the incentive and reward, rather than commercial success.

Former prime minister Kevin Rudd once said he wanted to put government at the centre of the economy again. When this occurs, increased government patronage and preferment is the direct and unavoidable consequence.

And just as in Bert Kelly’s day, while a few may benefit, it is the many who will pay.

■ *Senator Scott Ryan is shadow parliamentary secretary for small business and fair competition.*



The Gillard government is prepared to use taxpayers' money to help save one Vicorian aluminium smelter but smelters elsewhere are closing without support.