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Catchline: ON THE DRY SIDE 411A

Australia's New Protectionism

John Hyde

Protectionism is again rearing its ugly head. However it is dressed up, industry policy remains a process by which governments intervene in markets to give some Australian producers advantages over others in the competition for resources and incomes.

In other words: it is a racket. The case against it is not just that it allows inefficient practices, thereby making the whole community less wealthy. When rulers dispense grace and favour, however good their original intentions, they cause an ugly scramble for the favour of the king or governing class and place themselves in the way of more temptation than they resist. That is to say, government becomes corrupt. WA Inc. is but a particularly unpleasant example of a trend that is inevitable once governments make favourites.

The granting of privileges is a two way process. In Australia, the various privileged groups have from time to time returned the various governments' favours by voting for them in marginal seats, contributing to party funds, providing the party office bearers, looking after key endorsements, not creating even more industrial mayhem in the six months prior to elections, looking after some of a premier's expenses and so on. The symbiosis of Rothwells and the WA Government was extreme, but it was not exceptional. It was of a type, for instance, with Sir Walter Raleigh's support for Queen Elizabeth in return for tobacco and sherry monopolies.

Since 1983, until recently, in its rhetoric the Federal Government had explicitly recognised the economic cost of protection. Although the Hawke Government has not, so far as I am aware, drawn our attention directly to the parallel political cost, that also has been recognised by it, if only implicitly. For instance, several Ministers have boasted that reduced protection has made Australia a more fair society. And Federal Labor MPs have attempted to distance themselves from

the favouritism of the WA and Victorian Labor Governments which they recognise as being improper.

In its actions the Federal Government has been halting, uneven in its choice of the privileges that are to be removed or reduced, and sometimes even downright craven before union pressure---it was in the case of Telecom. It has, with one major exception, nevertheless, always moved in the direction of reducing anti-competitive laws, both where these laws restrict imports and within purely domestic markets. The exception is the protection afforded union hierarchies from competition by upstart unions. In spite of this very serious aberration, the Hawke Government has justly claimed a considerably better record than its predecessors.

Now, it seems, the trend is changing. Mr Dawkins, the Minister for Education, is promising "incentives" to proven export performers. Has he forgotten the trouble that Mr Hawke got himself into when he handed Kodak a little present from the taxpayers. Of course, the fact that Kodak was in the Prime Minister's old electorate had nothing to do with the case--- Prime Ministers are not so easily seduced. But it looked bad.

Mr Dawkins promises to assist only "proven performers". But has he forgotten the proven performers chosen by the Victorian Treasurer. Of course Mr Dawkins may choose better....

He also spoke of stimulating whole export "industries". This is a little better---at least the privileged class is fairly wide and he is less likely to find himself accused of favouring his mates. However, the proven export industries, at least when the term "industry" is defined widely, tend to be in the rural and mining sectors. It did not seem to be these industries that he had in mind. Our proven export industries include coal, iron ore, gold, grains, beef and, until the Wool Corporation started keeping 70% of the clip out of foreign hands, wool. Therefore, without for one minute lending support to the Dawkins proposal, which I think is crazy, let me make a few suggestions for boosting exports---some of which are not crazy.

Mr Dawkins might re-introduce the super-phosphate bounty---superphosphate is, after all, used mostly by export-earning industries. Similarly, the fuel-freight subsidy once found its way into the pockets of miners and farmers---exporters both. On the Government's revenue side, he might consider lifting the remaining export tax on coal produced in the Bowen basin and re-introducing tax-exemption for the gold industry. Most importantly of all, he might consider sacking the Wool Corporation and thereby allowing wool to be exported before the Australian market share is irretrievably lost to synthetics. In similar vein, the Government could forget its three uranium mines policy thereby allowing yellow-cake to be exported from some of the richest deposits in the world, before that market also is taken by foreigners.

Since various Australian governments own the wharves over which Australian exports must flow, might the Government not consider lifting the efficiency of the Australian waterfront to that of, say, Rotterdam and Singapore? Recently a pulp mill was proposed at Wesley Vale in Tasmania and a gold mine was proposed at Coronation Hill in the Northern Territory. If Mr Dawkins colleagues had not spiked them, both of these ventures would have earned substantial export income. Perhaps enthusiasm for them can be rekindled. Mineral sands projects seem to get thwarted, by one government or another. Perhaps the good Minister's time would be best spent thumping the cabinet table and shouting at Senator Richardson and Mrs Ros Kelly.

Control over exports is constitutionally reserved to the Federal Government. Professor Doug McTaggart points out (AIPP Policy Paper No 18) that export controls apply to about one quarter of total exports of goods and services. He argues that these policies add to the operating costs of the relevant industries reducing their competitiveness, "but there are no offsetting gains as it is by no means apparent that the export controls are achieving their goals". The Government might, therefore, repeal export licensing.

There is much that the Federal Government can do to improve Australian export competitiveness without creating yet another privileged group. And, if Mr Dawkins really feels he must behave like a Bourbon Monarch, then he may as well re-introduce such old privileges as the super bounty---privileges that his government abolished.

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