

Protection: The Politics of Privilege

John Hyde

During the election campaign Mr Hawke promised us the 'fastest possible' tariff cuts even if not as fast as the Gannaut Répot recommended. Yet, his Government was barely sworn in when we heard the first reports of his backing away. Mr Hawke is now said by union and industry spokesmen to have promised the textile, clothing and footwear (TCF) industries that the 'plan' which gives them 55% protection in 1995 will be maintained. Most other industries will by then have been reduced to 15% maximum protection.

At one level, that of backroom deals, not much has changed since 1983, although public understanding of the protection issue has changed greatly. Malcolm Fraser certainly would not have promised to reduce protection during a campaign. Indeed, during campaigns, he more than once boasted that protection would be maintained. Since election time is the season when Prime Ministers are least overcome by courage and principle, we must assume that reducing, rather than maintaining, protection is now popular. Indeed, the voting public is plainly less tolerant than it was seven years ago, of all of the many economic privileges which lower its living standards.

During the Hawke years economic rationalists have gained so much ground that few people, beside the vested interests involved, even try to justify trade barriers, union monopolies, Telecom's monopoly, marketing boards etc. The privileged interests have lost the public debate, but they have not given up. They have gone further underground relying on their long-established networks to bully, bribe and mislead legislators.

Anyone who doubts the lengths to which protected industries will go to protect their economic rents might read first Adam Smith and then *Industry Assistance: The Inside Story*, by Alf Rattigan. Rattigan, until his retirement in 1976, was Chairman of our Industries Assistance Commission and before that of our Tariff Board. Smith, although primarily a philosopher, was for a

time, like Rattigan, responsible to the Crown for the conduct of protection. Both objected to the power which had been granted to politicians and bureaucrats being diverted from public purposes to private ends. Both were very unpopular with the privileged interests.

Up to a point, vested interests can ignore the public debate. They can get their way with weak governments by threatening a prolonged strike, influencing Labor Party endorsements and Liberal Party funds, flooding the media with emotional nonsense, or having the relevant bureaucrats in their pocket. Since our bureaucrats do not normally accept bribes, the last may seem surprising unless it is borne in mind that some bureaucrats' *raison d'etre* is to mete and dole privileges. If there are no privileges they lose their jobs.

Although a TCF backdown is potentially the most serious sign that the micro-economy will not be liberated during this parliament, there are others. Before the campaign got under way Kodak, with a factory in what was then the Prime Minister's electorate, was promised a subsidy to maintain yesterday's technology. Since the election, the WA and Federal Governments have promised a \$30 million subsidy to the construction of \$100 million worth of the North West Shelf project---nominal protection of 30%.

During the campaign, Ford Australia, although it now denies making either a threat or a promise to withdraw from Australian manufacture, made noises as though it would. That was when Mr Hawke indicated that protection would continue to be reduced at the fastest rate possible. In the light of the TCF revelations we should ask if Ford received private undertakings from him.

We now understand that economic privileges are wasteful. Most of us know that ordinary Australians would be wealthier without industries that need 55% protection, 30% protection or even 15% protection. It offends some of us that governments which grant favours to the good and the great have lost sight of the interests of those citizens who are too insignificant successfully to petition for favours.

Consider the effect of waiving \$1.4 million of pay-roll tax that would normally have been paid by the contractor on the North-West Shelf job. The principle requiring governments to govern only with laws that are general in their application is not affected by the fact that pay-roll tax is a lousy tax. Were pay-roll tax abolished altogether, it would be replaced by some other tax or, should the government cut expenditure instead, then wages would rise in response to a general increase in the demand for labor. Only by being an exception, that is, by enjoying a privilege, did this project gain a competitive advantage over other projects when bidding

for resources. It will, therefore, be subsidised by other projects.

Such privileges are available only to those who are big enough to get the ears of ministers misguided enough to forget their responsibilities to the wider community. The law would not be changed for an ordinary Joe Blow.

Governments which show fear (in the North-West Shelf case fear of a union threat) and favour are, by any reasonable use of the term, 'corrupt'. Because the politics of privilege is gradually weakening our economy, most people want micro-economic reform. However, not as many people yet understand the damage done by 'grace-and-favour' politics to government itself.

Australia is not yet a Banana Republic but, if more people come to expect those in authority to yield to pressure for favours, demands for exceptional treatment will increase. Eventually an inner circle who have the ear of government will develop. Then the government loses respect among ordinary citizens and the economy collapses. The essence of Banana Republics, and of Third World states in general, is not poverty, but privilege. Poverty is but a symptom of that disease.

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