One Firm's Subsidy is Another's Burden

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The Federal Government can't afford to help SPC modernise? That's nonsense. They pay plenty of industry assistance already - just not to companies with unionised workforces, writes Ian McAuley.

The general interpretation of the Federal Government's refusal to grant $25 million to SPC Ardmona is that business cannot expect subsidies from the Abbott Government. It's essentially a repeat of the message relating to the decision not to provide ongoing assistance for Holden's manufacturing operations.

That interpretation would be credible if the Abbott Government were consistent in responding to industries' pleas for assistance, but in its election campaign and its few months in office the Coalition has been sending mixed messages. Some industries, or even specific firms, are granted their wishes with little if any justification, while others are refused. The "free market" argument is being selectively invoked.

Even before the election, Abbott promised favours to particular industries — most notably the coal and other carbon-intensive industries, which he plans to subsidise by removing the market discipline of a price on carbon.

When the Rudd Government announced it would close a concession allowing employer-provided cars to be assessed at a very low rate for tax purposes, although they may never be used for work, Abbott promised that if elected he would not go through with the reform. When introduced in 1986 the concession made some sense because 80 per cent of cars sold in Australia were Australian-made.

It was a way to assist the local car industry while getting around GATT/WTO rules. In 2013, however, around 80 per cent of cars sold in Australia are imports: most of the assistance therefore would be going to the Japanese and German car industries. The shrillest voices complaining about loss of this rort, costing around $450 million a year in forgone tax revenue, came from the salary packaging industry which lobbied the Liberal Party hard for its retention.

Then during the election campaign, Abbott promised $16 million for a chocolate factory.

Once elected, an early test of the Abbott Government's commitment to free markets was its response to Arthur Daniels Midland's attempted takeover of Graincorp, a takeover strongly opposed by National Party interests (they have never sided with free traders in the Liberal Party) and by others concerned by ADM's business practices.

Then, just before Christmas, under pressure from the financial planning industry, Assistant Treasurer Arthur Sinodinos announced a rollback of the Rudd Government's Future of Financial Advice (FOFA) reforms. The FOFA reforms, in line with orthodox market principles, required financial planners to be more open in revealing ongoing commissions and their conflicts of interest, but such openness was threatening their livelihood — an ongoing stream of commission income so long as investors hold the products they may have been recommended many years back.

So, by some unrevealed principle, those who help people avoid tax in salary-sacrifice arrangements and those who live off commissions for doing nothing at all are worthy of assistance, while those who make cars and package fruit are unworthy.

Is it that the former, working in the financial services sector, are "respectable" people, while the latter are members of a unionised working class? In fact employment Minister Eric Abetz seems offended by the idea that some businesspeople may actually want to run businesses paying good wages to workforces which happen to be unionised. In justifying his knockback to SPC Ardmona, Abbott drew our attention to the fact that the firm's enterprise agreement had conditions which were in excess of the award, as if awards are now a mechanism of wage control. In an Orwellian twist we are meant to believe high wages in unionised workplaces are bad, but high wages in finance sector are good.

Abbott and his ministers really don't have any commitment to "free market" philosophy. Rather, their refusal of cash grants may simply be driven by their monomania about government expenditure. In this regard it's worth reminding ourselves that according to Productivity Commission estimates we pay out about $10 billion in industry assistance each year. That's around $1000 a household. The assistance SPC sought was a once-off payment costing about $5 a household.

That $10 billion splits three ways: $5 billion in direct budgetary outlays, $4 billion in tax concessions (i.e. revenue forgone), and $1 billion in the cost of tariff protection. This cost of tariff protection is a net cost. In round figures tariffs grant $8 billion in assistance to manufacturing, while costing $7 million to other industries.

Because of methodological problems the Productivity Commission does not include in its estimates assistance to large parts of the finance sector, most notably superannuation and private health insurance — the former benefiting from the compulsory employer levy, the latter benefiting from the Medicare Levy Surcharge, and both benefiting from generous tax concessions, amounting to $35 billion a year.

While much of that $35 billion is in the form of personal transfers, some is effectively an industry subsidy. Although these outlays go on growing year after year, they seem to be exempt from the rigorous review process applied to other industries such as manufacturing. In relation to the $5 billion annual outlay for the private health insurance rebate the Prime Minister's justification is that it, "is an article of faith for the Coalition. Private health insurance is in our DNA".

The misfortune of Holden and Ardmona SPC is that the assistance they sought would have come out of the budget expenditure, and would therefore have made the Federal Government's fiscal targets just that much harder to reach. Had they been in the form enjoyed by other industries — perhaps, to reflect the way private health insurance is subsidised, a tax penalty on anyone with an income over $88,000 who doesn't own a Holden — they would not be of such bother.

The main point about industry subsidies is that we have to pay for them, in the form of higher taxes or higher prices. One firm's subsidy is another firm's burden, and the resulting distortions in production and consumption are a loss to the whole economy. That economic logic is easy to call on in denying assistance to firms such as Holden and SPC Ardmona, but it should apply across all industries. If we weren't burdening the economy with all those ongoing subsidies, particularly those privileging the finance sector, manufacturers may not have to beg for assistance.