

Millions of Dollars, Dollars for Free

10 February 2014

Who benefits from industry assistance? After the SPC debacle, the answer seems more confused than ever. Big business and governments love to hide subsidies, explains Ian McAuley.

When I wrote about SPC Ardmona last week and drew attention to subsidies enjoyed by other industries, many readers were puzzled because the amounts far exceeded what is identified in the budget papers and even those identified in the more comprehensive Productivity Commission estimates.

That's because there are so many ways of granting assistance to particular firms and industries. Only those involving a direct cash handout, as SPC Ardmona was seeking, and as the automobile industry receives, are easily and unambiguously identified. All others are more or less opaque. There is nothing a privileged industry likes more than a subsidy hidden from view.

In past times the most common form of assistance was a tariff — now generally being phased out. If, say, in Australia we could make refrigerators for \$1200, but they could be imported for \$1000, then a 20 per cent tariff placed the Australian industry in the same competitive position as an importer.

Even if no refrigerators were imported, while the tariff persisted each refrigerator made in Australia was effectively subsidised by \$200, and that subsidy was paid by the consumer. Being a private transaction most tariff assistance never shows up in government or national accounts. All that is revealed is the amount of duty collected, which may be very low if the tariff is effective in keeping out imports.

Similarly governments can impose import quotas, which at one time were used to support our car industry. They have the same effect as tariffs, because in restricting imports they sustain high prices. If the quotas are auctioned, they actually bring in public revenue, but that is incidental — their main impact is a cost borne by consumers in the form of higher prices. Again, the costs do not show up on official accounts, although the Productivity Commission makes reasonable estimates of the costs to consumers of tariffs and quotas.

Then there are legislated non-tariff-barriers. Every developed country has regulations relating to biosecurity, motor vehicle standards and consumer safety. These may go beyond reasonable requirements and become means of blocking competing imports.

Domestically there are exemptions from competition laws, such as those preventing supermarkets from selling pharmaceuticals in competition with retail pharmacists.

Tax concessions take many forms. One is to allow firms in selected industries accelerated depreciation, so they can reduce reported earnings and defer paying tax. The mining industry does particularly well out of such allowances. Tax concessions can apply to customers: for example, the superannuation and private health insurance industries are heavily subsidised as a result of tax rebates given to individuals.

Because calculating how much of this assistance is personal benefit and how much is industry assistance is conceptually and practically difficult, most such assistance is not reported by the Productivity Commission.

There are what may best be called legalised tax rorts, such as allowing people with employer-provided cars to claim them as a tax deduction, even if they are not used for work purposes. The beneficiaries are the employees and the parasitic "salary packaging" industry. A little benefit trickles to the car industry.

Housing is similar. Owner-occupied housing is exempt from capital gains tax. Those who invest in rental housing are allowed to double count some expenses. More generally, there are concessions applying to short-term capital gains, a benefit to the finance sector which does well out of asset turnover.

Government purchasing is another form of assistance. Sometimes it takes the form of a loading applied to foreign-content tenders. The most lucrative offerings are in defence contracts.

The most easily overlooked forms of assistance occur when firms and industries are not required to pay for their full cost of production, most notably for what are called "negative environmental externalities" — getting away with polluting for free. Setting a low carbon price, or even abolishing a carbon price, is the most notable example of this kind of subsidy. These are forms of production subsidies based on undercharged natural resources. It's unfortunate that few advocates of carbon pricing have presented the absence of a price as an industry subsidy.

Inadequate staffing of regulatory agencies, weak legislation or otherwise weak enforcement of laws is another form of hidden assistance. Trucking is the most recent industry to have been exposed as in receipt of such assistance, to the cost of the safety of other road users. In fact, in a competitive industry like trucking, nobody within the industry benefits. Perhaps consumers benefit from lower prices, but at a cost of risk to their lives.

Infrastructure provision can be another form of assistance if the benefits of that infrastructure — a road, a railroad, a power line — are concentrated on one industry or even, in some cases, particular firms. Railroads to coal ports and power lines to aluminium smelters are cases in point. Some economists even suggest that provision of schools, police stations and health clinics all at sub-economic scale in country regions is a subsidy to rural industries.

The most exquisite subsidy applies to private health insurance, in the form of near-compulsory purchasing. If one has a high income but doesn't hold private hospital insurance, a tax penalty applies. Even the planners in the old Soviet Union never went quite that far.

Withdrawing government services to give opportunities to private operators is a common way to dispense favours, even when there is a compelling economic case for keeping assets in the public sector. Privatised toll roads are the most obvious examples. Right now, it looks like the ground is being prepared to trim the ABC in order to make space for struggling commercial broadcasters.

Trade agreements, in theory, liberalise markets, but they can be used to trade off one industry's interests at the expense of others.

There are more, but my point is to show how widespread and often unseen they are. Don't expect any government, particularly the current Commonwealth Government, to try too hard to expose them. There are powerful interests at play. And of course the official line in the World Trade Organization is that we are in favour of free trade and competition. We don't want to expose our tricks to the rest of the world.

In the end we must ask "who benefits?" To misquote from Gilbert and Sullivan, when everyone subsidises everyone, then no one subsidises anyone. If there are beneficiaries they are the lobbyists, and hypocritical politicians like Tony Abbott and Joe Hockey who dispense favours to their supporters while pronouncing the age of entitlement to be over.