

Hats off to market forces

- by: *Henry Ergas*
- From: [The Australian](#)
- January 29, 2010 12:00AM

AUSTRALIA is suffering from a plague of hard hats. Kevin Rudd, not a man who could readily distinguish a nail claw from a hacksaw, wears a hard hat with the ease with which Menzies sported homburgs and fedoras. As for Julia Gillard, she would not leave home without it. And, rumour has it, Anthony Albanese's has been made to measure.

But this is no fashion fad. Rather, it is all about a simple, important but virtually unknown fact: construction is the new manufacturing.

When the Hawke government was elected in early 1983, manufacturing employed 2 1/2 times as many people as construction. By November 2007, construction had nearly caught up: not because of manufacturing decline (there was only a slight fall in the total number of manufacturing jobs), but because of sustained growth in construction industry employment. Since then, manufacturing employment has declined slightly, but employment in construction has not. Seasonally adjusted, they are neck to neck and it seems likely that construction, which now accounts for more than 9 per cent of employment, will pull ahead this year.

This is a seismic change in the Australian political economy.

For years, it was employment in manufacturing that defined the working class and the natural support base for Labor. Its contemporary equivalent is defined by employment in, or in activities ancillary to, construction.

There are some respects in which construction, as a political support base, is more attractive than manufacturing.

At its peak, manufacturing activity was fairly concentrated geographically. In contrast, construction is virtually everywhere. Unlike manufacturing, construction enjoys natural protection from imports: there is no risk of its disappearing any time soon. With more than 100,000 members in militant unions, construction is a powerful voice in the labour movement. And with huge profits riding on government decisions, builders and developers are a ready source of campaign funding.

On the other hand, a quarter of building workers are self-employed, far more than in manufacturing. And many building workers, particularly those with trade qualifications, have ambitions defined not in collective terms (as in the Marxist class struggle) but in terms of individual strategies and aspirations. They can identify with traditional small business concerns about tax, interest rates and industrial relations, making them politically volatile.

Little wonder then that so much of the Rudd government's effort is focused on that constituency. From Pink Batts to infrastructure, solar panels to school halls, the stimulus spending may be widespread but its economic incidence is laser-beamed.

The result? Skill shortages have re-emerged in the building trades. As for ordinary hourly rates of pay, they have (since December 2008) increased only fractionally less than in mining, outstripping average pay growth by 40 per cent.

Is this consistent with increasing Australia's productivity, the government's mantra? Hardly.

Like the National Broadband Network, much of this spending has been exempted from any form of cost-benefit analysis. Treasury secretary Ken Henry has put the consequences starkly: "Government spending that does not pass an appropriately defined cost-benefit test necessarily detracts from Australia's wellbeing."

That resources are diverted from internationally competitive activities, such as mining, where capacity expansion is urgently needed, into useless but lucrative construction projects makes the economy-wide costs all the greater.

Not that building is the only beneficiary of the government's largesse. After all, the government has not walked away from its manufacturing heartland.

Speaking in Adelaide last Thursday, the Prime Minister extolled the virtues of his increased subsidies to the auto industry, whose productivity has been consistently poor during periods of rising assistance.

The same day, he gave a ringing endorsement of the Howard government's decision to build the navy's new Air Warfare Destroyers in Australia.

But recently declassified estimates show local construction has required an effective rate of assistance of nearly 50 per cent, some 10 times that given to manufacturing as a whole.

Nor does it end there. The teachers' unions can stand proud, as (the ill-fated computers in schools program aside) added education spending has flowed into higher earnings, with teachers trouncing even miners in recent wages growth. And even international bankers, recently denounced by Rudd as "predatory financiers" whose "fundamental failure of values" was a "root cause of the subprime crisis", seem set to get a leg-up so as to transform Australia into a global financial hub.

Assisting every powerful constituency smacks of what used to be called "protection all around", an enterprise as futile as it is economically harmful. It is one thing to cast your bread on the waters, hoping it will come back as angel food cake; it is another to think you can favour every activity at once. All that does is rob Peter to pay the less efficient, but politically more powerful, Paul.

We do need to lift our productivity levels, which are about 85 per cent of those in the US, some 5 to 10 percentage points short of where they could reasonably be. But if the government is serious about closing that gap, it should focus on allowing markets to work, not distort them at every turn.

That requires tough decisions reining in ill-advised interventions and poorly designed spending.

To make those decisions, we need substance, not rhetoric, hard heads, not hard hats. True, the hard hats may win votes, but it is the hard heads that bring home the bacon.