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## Tarnished halo over free trade

- Henry Ergas
- From: [The Australian](#)
- September 02, 2011 12:00AM
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**LISTENING to Craig Emerson is morally uplifting. For the man speaks gospel truth in calling on us to eschew protectionism and embrace structural change. And he is right to call on the opposition to be clear on its commitment to free trade.**

But if you want to wear a halo, the least you can do is to keep it clean.

Emerson's attacks on Tony Abbott would have far more weight if he was willing to speak frankly about his own government's record on industry assistance. And that record is appalling.

To begin with, the government has compromised the cornerstone of our trade policy: the Productivity Commission's role in independently and transparently reviewing industry assistance.

Since the Industries Assistance Commission Act, 1973, successive governments have accepted the principle that "the government shall not take any action to provide assistance to a particular industry until it has received a report on the matter from the commission".

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No less a Labor icon than Gough Whitlam, in proposing the 1973 legislation in parliament, described that principle as the "essential safeguard to the integrity of the system"; his comments received a loud "hear, hear" from leading opposition members Tony Street and Bert Kelly.

But after 40 years of bipartisan consensus, the Rudd government tore that principle up.

Faced with the need to review assistance to the most highly protected industries in Australia, passenger motor vehicles and textiles, clothing and footwear, it decided to bypass the PC and task two hand-picked bodies.

It then gave those industries even more assistance than its own reviews recommended, including through the dim-witted "green car" scheme.

Unfortunately, the Rudd government's demise did not end the damage. Rather, the Gillard government has now flagged subtle but important changes that make it easier for the anti-dumping laws to be used as a covert form of protectionism.

Moreover, in initiating those changes, it rejected outright a PC recommendation that a public interest test be applied before anti-dumping duties were imposed.

And it gets even better. For the government has also just rejected a commission recommendation that before trade agreements are considered by parliament, they be subject to independent and transparent assessment.

Why? Because "quantitative analysis can be highly misleading, with conclusions heavily dependent on simplifying assumptions".

Put aside the obvious inconsistency with the weight the government has placed on its carbon tax modelling.

For what is troubling is that since the 1980s, Australia has actively encouraged other countries to undertake precisely the kind of analysis the government now derides.

This was not out of a misplaced fondness for economic modeling. Rather, it was because rigorous analysis is the best way of showing that the high trade barriers our farmers face do even more harm to the economies that

impose them than they do to us.

And to ensure those analyses are authoritative, we have recommended vesting responsibility for undertaking them in independent bodies similar to our PC.

As the Tasman Transparency Group demonstrates in a recent report, those efforts remain vital to our national interests. Yet Emerson and his colleagues have now recklessly undermined their credibility.

But it is not only our institutions that have suffered. Rather, each time they have faced a tough decision on individual trade policies, Emerson and his colleagues have gone to water.

The restrictions on parallel importation of books are a case in point. A thorough assessment by the PC recommended their abolition. That would have brought Australian book-buyers the greater competition, lower prices and greater variety that followed the Howard government's repeal of similar prohibitions on the import of CDs. But Labor wimped out. The result? Each book costs Australian consumers \$3 more on average than it should.

That decision was explicitly protectionist. But there are also the less obvious, though no less distorting, forms of industry assistance that have flourished under Labor, typically involving "green subsidies".

The \$100 million cash injection for BlueScope Steel points the way: and with \$10 billion to be put in a slush fund for "green investments", commission chairman Gary Banks is right to worry that environmental excuses for protectionism are "being pushed to the limits".

In short, this is an area where the government has set new lows. But none of that lets the opposition off the hook. For with the mining boom raising our exchange rate and increasing competition for scarce labour and capital, it too is feeling the heat from manufacturing.

In discussing the opposition's response, Abbott has stressed that "the Coalition's instinct is always to defend and extend the role of markets". But he also needs to say that protectionist measures are a fool's way of coping with adjustment pressures. All they do is squander the proceeds of the resource boom: using them to keep inefficient activities going, instead of durably raising living standards.

But avoiding protectionism doesn't mean nothing should be done. Rather, here are four ways in which to intelligently help our economy adjust.

First, avoid imposts that threaten our competitiveness for no benefit. Imposing a carbon tax when our resource competitors do not is a case in point. Second, remove the barriers to higher productivity in our economy as a whole. If mining, to extract an additional tonne of ore, needs two more workers rather than one, then manufacturing will have to contract that much more for mining to expand. That makes Abbott's willingness to review Labor's industrial relations laws all the more welcome and important.

Third, wind back government programs that waste resources, as every worker diverted to building a useless school hall merely increases the extent to which other activities will need to shrink.

Last, but critical, restore the policy disciplines this government has done so much to weaken. And there is no better place to start than by renewing the commitment to the principle that all industry assistance will be subject to full review by the PC.

As for Emerson, good on him for speaking out against protectionism. But before throwing stones at others, he needs to put his own house in order. Given the mess it is in, that should keep him busy for quite some time.

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