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Abbott and the rent-seeking society

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Tony Abbott ... raising the stakes on an already well-established game of distributing government preferment.
Photo: Glenn Hunt

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Gary Banks's 2013 Stan Kelly Lecture is a landmark of the public economic policy debate against which the performance of post-mining boom governments will be measured.

The former Productivity Commission chairman's speech is essential reading for all members of federal parliament.

For the Labor politicians who care about long-term welfare or ordinary workers and pine for the greatness of Labor under Hawke and Keating, Banks's clear argument provides the best possible defence against the tempting poison peddled by Labor's political fixers and union officials.

However, it is the Coalition parliamentarians as they settle into the glide path to power who most urgently need to absorb Banks's message.

If, as expected, Tony Abbott wins next month's election, he will need every bit of productivity growth he can get.

As the projections included in the official Pre-election Economic and Fiscal Outlook report make clear, Abbott will need, at a minimum, the equivalent of \$24 billion in additional annual revenue or cost savings by 2023-24 to turn the projected budget deficit into a no more than adequate surplus.

That's about the current annual defence budget, and it is not going to come from efficiency dividends. Nor is there a politically feasible magic bullet hiding among the possible reforms of taxation or federal-state relations.

The Coalition's best chance is to generate the additional revenue from stronger workforce and productivity growth. Productivity growth will accelerate as the new mining projects come on stream but that already is built into the Treasury and Finance Department projections and it is not enough.

Additional sustained productivity growth will have to come from innovation and efficiency improvements driven by competitive pressure.

But that will require Abbott to turn around the rising tide of rent-seeking behaviour that he, in his single-minded dash for power, has helped encourage.

Abbott's promise to reverse the onus of proof in anti-dumping cases is highly irresponsible.

However, Abbott was raising the stakes on an already well-established game of distributing government preferment, with subsidies and anti-competitive favours going to car manufacturers, food processors, steel producers, coastal shipping, defence suppliers, alternative energy technologies and, most of all, the unions.

The signal to business is crystal clear: Grab your union and jump on a plane to Canberra; the Department of Handouts is open for business.

This is poison for productivity.

As Banks explains, productivity growth in aggregate comes from two principal sources: cost-reducing and value-enhancing changes within individual businesses; and the displacement of poorly performing businesses or industries within sectors.

The first is called innovation; the second is the process of creative destruction by which labour and capital is redistributed to more productive enterprises.

Government subsidies and anti-competitive regulation for politically favoured industries undermine the market pressures that lead to productivity growth.

Rent-seeking, Banks explains, weakens economic growth by diverting entrepreneurial energy away from productive ends, as well as by attaching itself to policy instruments that distort the allocation of resources.

Its preoccupation with wealth distribution over wealth creation, he says, ultimately erodes an economy's capacity for both.

"In my view, the re-emergence of a 'rent-seeking society' poses a bigger threat to the future living standards of Australians than the ageing of our population or the vicissitudes of world markets," Banks warns.

Abbott and his chief economic minister, Joe Hockey, have to quickly turn around the burgeoning culture of business welfare dependence. Competition and productivity growth must be made a national mission and be given at least the same over-arching priority as returning the budget to surplus.

Indeed, without that, there will be no sustained budget surplus.

The Australian Financial Review



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