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Out of the loop

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GARY Banks is nothing if not determined. The chairman of the Productivity Commission has taken some hits since the election of the Rudd Government two years ago. Although the commission keeps itself in work, it's not the central economic advisory body it was in the Howard era.

Prime Minister Kevin Rudd sees it as just one source of advice among many. When it really counted last year, as the American economy started to nosedive and it appeared the downturn would hit Australia in a big way, Rudd listened to Treasury and implemented successive stimulus packages. The commission's trademark dual approach of caution when it comes to spending and boldness in relation to cutting regulations was not in contention.

Rudd has also locked himself into big-ticket assistance programs for some industry sectors, in particular the automotive industry. Banks and his commission detest that sort of spending.

As the commission observes in its annual report, released last week: "Certain forms of assistance - such as some research and development funding, and some measures with environmental objectives - can deliver net community benefits. Other policies with industry assistance implications - such as adjustment assistance - can also be justified on social or equity grounds or, currently, to promote economic stabilisation.

"However, costs are always incurred when providing assistance to specific industries. In many cases, these will outweigh the benefits because such assistance diverts scarce economic resources from more efficient firms and industries, ultimately weakening the performance of the wider economy."

In other words, the Government's $6.2 billion car industry assistance package is bad policy that more likely than not will hurt the country. On Thursday, Banks told a Melbourne conference that the Government should consider deferring some parts of its infrastructure program, particularly its schools building scheme, now that an economic recovery appeared to be on the way. Banks was especially mindful of the debt being incurred by the stimulus and he questioned the effectiveness of the schools roll-out.

This fits neatly with the argument put by Rudd's Coalition opponents: that the Government has been profligate and too hasty in its spending programs, and that a winding back of expenditure is needed.

Banks has not been backward in having his fights with the Government out in the open. In June last year, only hours before the commission's first report attacking assistance to the car industry was released, Rudd announced the Government's Green Car Fund.

The fund promises follow-up financial support to car makers who invest in the development and manufacture of fuel-efficient cars. It was a clear shot by the Prime Minister at the Productivity Commission's attitude towards sectoral assistance. Rudd knew the commission's negative report, which had not been sought by the Government, was coming and he wanted to tell Banks and his staff that he was determined to go ahead with his policies in support of local car makers.

Banks shot back with a speech two months later in which he savaged Rudd and the Industry Minister Kim Carr for their support of manufacturing, especially the car industry. His substantive complaint was that on these issues he had been sidelined by the Government. His body had been set up to hold inquiries into industry sectors and economic activity; this Government was getting people such as former Victorian premier Steve Bracks and telecommunications executive Terry Cutler to do work that should be his.

Banks does not let go easily. On page 22 of the commission's annual report, a table purports to show an international comparison of taxpayer assistance to the automotive sector. Of 15 OECD countries, Australia's spending comes in at $250 for every man, woman and child, second only to Sweden, which is said to be shelling out more than $320 per person (all figures are in American dollars). This appears to be well ahead of France (about $140) and the US, which supposedly pays out only a shade over $50 per head in car industry assistance.

The impression is that Australia's support of its car makers has gone berserk and is way out of all proportion to comparable countries. But it hasn't and it isn't.

The Australian program, which is not a bail-out but a co-investment scheme in which public money is doled out only after manufacturers have stumped up their own cash, will last for 10 years. That's $25 per person per year. The French program will run for five years, which works out to $27 per person per year.

The Productivity Commission graph does not include spending announced after June this year, such as the multibillion-dollar loans and guarantees announced by the British Government in September. Nor does it take into account the sizeable incentives offered by individual states in America, such as the $252 million plus land that Alabama is giving Hyundai, the $410 million Georgia is giving Kia, or the $363 million that the downtrodden state of Mississippi is handing out to Nissan to snag 5300 extra jobs.

This compares with a total contribution by Victoria and South Australia of about $100 million over a much longer time scale. America's national Government is actually paying out a total of $68 billion to its car makers, which works out to close to $240 per head, to be spent over a shorter period than Australia's 10-year program roll-out.

Basically, the graph is a waste of ink.

In the annual report, the commission says: "Governments need not accept the commission's advice, and sometimes do not (at least initially). That said, a review of the commission's inquiry outputs since its inception in 1998 shows that governments have typically adopted a substantial majority of the commission's recommendations and generally endorsed its findings."

It's quite likely that the bulk of those adoptions and endorsements will have come from the first nine years of the commission's existence, when its creators were in power, rather than subsequent years.

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