


[Gary Banks](#)

Why the rent-seeking economy is creeping back again

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Innovation has become the sacred cow of industry policy, Gary Banks told the Deakin University policy forum.
Photo: Alex Ellinghausen

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Australia was fortunate that Bert Kelly, the author of the original Modest Member column in these pages, had a father, WS (Stan) Kelly, who in Bert's words, "pushed me sternly along the road of economic rectitude". In the early 1960s, this road took Bert to the federal parliament, where he fought a lonely battle against the protectionist orthodoxy.

It was not until the Hawke Labor government that the old regime began to be dismantled. Capital controls were loosened, tariffs cut, public utility monopolies exposed to competition and anti-competitive regulations systematically reviewed and (mostly) removed. Workplaces became less hidebound by centralised prescription and, by the 1990s, innovation had blossomed and productivity surged.

All of this vindicated Bert Kelly's early stand and brought great benefits to the Australian community through higher incomes and more jobs. But if Bert came back today, would he feel that progress had continued as it should?

Though much diminished, the tariff is still in place, imposing smaller costs but signalling the legitimacy of protection and the continued pursuit of it. This has seen "reforms" to make anti-dumping action easier to get and "by-law" relief from tariffs on inputs harder. But Bert would note that preferment these days is mostly delivered "behind the border", through new regulatory measures and subsidy programs under cover of public interest rationales. Budgetary assistance amounted to nearly \$10 billion last year, 40 per cent up on five years before, compared to \$1 billion in (net) tariff assistance.

Largest private beneficiary

Innovation has become the sacred cow of industry policy, as though it should be sufficient to invoke it to justify any form or amount of government support, even where it merely props up production. When combined with perceived environmental benefits, the mixture is a potent one indeed. The largest private beneficiary of this juxtaposition of public interest rationales is the carbon abatement industry. On the last count, there were more than 200 different programs to support it Australia wide. And the transfers now dominate most other categories of assistance, amounting to nearly \$2 billion at the Commonwealth level in 2011-12.

Bert would not be surprised to observe auto manufacturers were receiving substantial subsidies for innovation and “adjustment” in place of their former tariff protection. However, he would be concerned at the lack of transparency around the public’s “co-investment”.

When it comes to industrial relations, Bert would be disappointed Keating’s reforms of the 1990s appeared to have lost momentum and even gone backwards in some areas. He might be especially surprised at the influence and powers of unions, despite diminished membership.

Rent-seeking favours insiders and the organised at the expense of others. It undermines economic performance by diverting people from productive activities, as well as distorting the allocation of resources. And it weakens the fiscal capacity of government to address genuine disadvantage. Signs of its re-emergence in Australia are therefore of great concern. Why has it happened? The mining boom was one contributor. It simultaneously put pressure on trade-exposed industries, while generating the revenue for government to address their needs.

Constraints removed from spending

Another factor was the global financial crisis, which removed constraints from spending, regardless of its productive potential, and saw public belief in the free lunch reasserting itself. However, the GFC’s more disturbing legacy has been in policy formulation itself, with some of the short cuts in policy process necessitated by the crisis appearing to persist.

At face value, Jack Lang’s famous comment about backing self-interest, because “at least you know it’s trying” is judgment free. Properly directed, self-interest underpins economic progress. And lobbying is an inherent feature of democracy. However, for good policy ideas to prevail over bad, it is important all proposals are rigorously tested. The successful reforms of the 1980s and 1990s were founded on processes within the bureaucracy, ministerial offices and cabinet that served to illuminate the economic as well as political trade-offs in policy choices. This was supported by independent public reviews in contentious policy areas where extensive consultation was desirable. The result was an inhospitable environment for rent-seekers’ claims, one that soon saw human energy redirected to productive ends.

Recent history tells us good process and the policy discipline it provides cannot be taken for granted. The crucial factor in sustaining both is good political leadership. This remains as true today as it was in the time of Stan and Bert Kelly.

Gary Banks is Dean and CEO of the Australia and New Zealand School of Government and former chairman of the Productivity Commission. He presented the Stan Kelly Lecture in Melbourne last night for the Economic Society of Australia.

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