

The Australian government is still protecting industries that employ a small number of people. This is while the largest employer, the services sector, is subject to the largest tariffs, a recent Productivity Commission report demonstrates.

As a whole, manufacturing still receives 77% of net assistance, largely due to the remaining small levels of tariff assistance, plus some budget measures, according to the report.

“Input tariffs” increase the costs of imported goods and services that go into making things. This makes a business’ activities more expensive for the consumer. And even though the services sector accounts for around 85% of employment, current government policy is penalising this sector, which has the best prospects for future growth.

However, as the report states, it’s the construction industry that is most affected by input tariffs (A\$1.5 billion worse off), followed by property and real estate (A\$337 million), then accommodation and food (A\$294 million). All of these sectors are labour intensive and employ substantial numbers of people, yet are forced to pay unnecessary tariff costs.

Despite all of this, the government is still protecting primary industries such as horticulture, sheep, beef and grains, and in the manufacturing sector in food and metal production, wood pulp and oil and chemicals. All of these latter industries are basic supply or processing industries, that provide inputs into other industries, but not usually the final products.

Tariffs against foreign goods are reducing and now only provide modest assistance to a few industry sectors. The report says this is worth A\$4.6 million to manufacturing, and within that sector food and beverages, metal fabrication, wood and paper petroleum and chemicals enjoy the most protection. Together these industries provide a relatively small proportion of total employment (around 7% or just under 1 million employees).

The popular image of our government protecting the motor vehicle and component industries seems to be less true according to these latest statistics.

In terms of budget assistance from the government, it's not cars but finance and insurance services that benefit most from the public purse followed by sheep, cattle and grain industries. Vehicle production now receives less than half the budgetary support it received eight years ago – down to approximately A\$290 million from A\$600 million in 2008-09. The government has given up on the motor vehicle industry and its capacity to provide jobs into the future.

More particularly, the Productivity Commission is critical of governmental assistance to the Spencer Gulf industries in South Australia and to the bail-outs for the Arrium steel works in Whyalla, in the same state, which it considers wasteful and distortionary. Arrium went into voluntary administration before an overseas buyer was procured.

The commission is also hostile to green energy production and storage and to the politically sensitive Northern Australian Infrastructure Facility, which it considers a pork-barrelling exercise open to political pressure. It says this facility is likely to fund non-available projects, that will sit on the public books for years, and this is a misapplication of investment resources.

Finally the wrath of the Commission is piqued by the re-regulation of the sugar industry (another declining industry in employment terms) and especially at the granting of charity status to the main marketing arm, Queensland Sugar Ltd. This body must be one of the last remaining marketing monopolies in the primary industries.

Governments will have to look at winding back the remaining (smallish) tariffs affecting domestic service industry sectors – especially those affecting construction supplies, retail and property, accommodation and food.

These impacts flow into local costs that are making Australia a more expensive place to consume or do business both for Australians and overseas visitors.

John Wanna does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

The government is backing the wrong industries, as our economy changes: Productivity Commission

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