Liberal and Labor governments can't seem to restrain their spending

The new government has been laying out excellent criteria for public policy, writes **Mitch Fifield**. But its own policies are failing these stringent tests.

On a Brisbane stage in mid-November last year, Kevin Rudd positioned the final nail above the coalition government's coffin and drove it home. The then opposition leader, in his campaign launch address, criticised the coalition's 'irresponsible spending spree'. Rudd declared that 'this sort of reckless spending spree must stop.'

That the coalition allowed the Labor Party—with their record of $96 billion in government debt—to brand itself as the party of fiscal conservatism and smaller government was the saddest indictment of the Liberal campaign. The coalition was a good government and achieved much for Australia. It should defend its legacy, but also needs to be honest about its failings. A little too often, politics did get in the way of good policy. The coalition could have done more to tame the expenditure beast, not to pre-empt an imagined inflation crisis, but because government smaller in size and scope is a core liberal tenet. Unfortunately the mechanics of government are stacked against treasurers and other advocates of fiscal restraint.

Some years ago, a particularly enthusiastic supporter of small government approached a Howard government minister and collared him over a new piece of burdensome legislation. Despite the minister's attempts to pacify the man, he stormed away angrily declaring 'I don't know what happens to them when they get to Canberra! There's something in the water!' Perhaps the ACT water authority should conduct a few tests. How else to explain 'Harmony Day'? It sounds like a mandated celebration in North Korea culminating in a mass choreographed performance. But 'Harmony Day' was actually a creation of the former government.

Mitch Fifield is Senator for Victoria.

Over time, the belief that most situations can be improved by spending taxpayer money creeps through even the best governments. The previous government was no exception. Harmony Day and the accompanying grants program was established in 1999 to promote the self-evident concept of community harmony are prime examples.

The result was thirty-four million taxpayer dollars wasted on grants such as the $35,000 to the Sisters of Mercy in Brisbane for the 'Believing women for a culture of peace' program: an inter-faith, inter-ethnic dialogue for Muslims and Quaker women. And $50,000 to the Australian Wrestling Federation to encourage wrestlers not to sledge each other.

The Harmony Day program was a relatively small outlay but a clear sign the former government was drifting from its core belief in minimising the role of government. More substantial confirmation was provided by the billions poured into industry programs such as 'Investing for Growth' and 'Backing Australia's Ability.' Too frequently the coalition conditioned Australians to look to government rather than themselves for solutions.

Aside from such transgressions, the coalition's economic record was overwhelmingly positive. There is no doubt government would be bigger and in debt had Labor not lost office in 1996. After all, the coalition repaid $96 billion of inherited debt and balanced the budget, all in the face of Labor opposition and opportunistic posturing.

The results of the coalition's economic policy are clear from the often quoted economic indicators which are looked upon with growing fondness. Yet it is little known that over the term of the coalition government Australia jumped from tenth to fourth in the World Index of Economic Freedom. But take a look at the future and it's a depressing outlook for believers in smaller government.

The prospects for responsibility

Labor in government is not matching their pre-election rhetoric of economic conservatism. With nine out of nine governments in Labor hands, something of a Super-Nanny State is emerging. There are many examples; the alcopops tax—a revenue raiser and punitive social measure. The increase in the luxury car tax—another revenue grab and a return to the politics of envy. But the car industry is perhaps the clearest example of Labor's interventionist approach to government.

To be fair, the coalition's own record on industry policy is by no means unimpeachable. The Fraser government introduced an import quota and massively increased tariffs to 57.5 per cent, above even the Whitlam level of 45 per cent. Like the Hawke and Keating governments, however, the Howard government progressively reduced import tariffs and scheduled to decrease the 10 per cent import tariff to 5 per cent in 2010. The coalition also planned to eventually phase out the Automotive Competitiveness Scheme.

There was early cause for concern at the Rudd government's approach to industry policy with the confirmation of Senator Kim Carr as Industry Minister.

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One of Senator Carr's more interesting arguments in favour of automotive subsidies was his statement these would ensure that 'we have the capacity to build fighter aircraft'. Automotive executives were surprised to learn that Carr plans to transform their production lines in time of war from making family four-doors to FA-18s.

But the direction of industry policy was beyond doubt with the announcement that former Victorian Premier Steve Bracks would conduct a review of the automotive industry, sidelining the Productivity Commission. And before Bracks reports, the government is already expanding the concept of industry assistance. The government is picking winners.

Witness the allocation of $35 million to Toyota. Not only did the government put its weight behind a particular type of car—the Camry Hybrid—they wanted it built at Toyota's Melbourne plant. The government's firm hand guided the industry to build a particular type of cars at a particular place. There was no cabinet decision, or departmental advice. And there was no criteria or contestability for the grant.

Before the election Shadow Finance Minister, Lindsay Tanner, promised a new era of transparency in government economic and finance policy under the banner 'Operation Sunlight'. He criticised the former government whenever plans were announced 'without proper scrutiny by Treasury or Finance and without consideration by cabinet.' Operation Sunlight's rays didn't quite reach the Toyota decision.

Crucial governance mistakes

Labor has also failed another Tanner test for good government decision-making: 'to what extent are its initiatives directed towards advancing the wider national interest, as opposed to rewarding its supporters and securing its own re-election?' A grant for a photo opportunity doesn't really meet the 'national interest' test.

The Toyota grant, along with continued tariff protection for the automotive industry, fails a third Tanner test for good government, fitting his definition of 'producerism'. The minister has argued that,

> producerism exists wherever the state implements regulatory and ownership arrangements which favour or protect particular producer groups at the expense of society as a whole. Tariffs, monopolies and other distorting regulatory regimes are the most obvious examples of the producerist philosophy at work.

Yet this 'producerism' appears to describe exactly the new government's approach to the automotive industry. The industry is protected by a 10 per cent tariff barrier. The industry benefits from a half-billion dollar competitiveness scheme. And now the government will hand at least another $500 million to prop up car makers through the Green Car Innovation Fund.

As Tanner rightly pointed out, 'every dollar spent on narrow producer interest is a dollar which can't be spent fighting poverty, improving education and building infrastructure. Every regulation needlessly protecting businesses from competition is a regulation driving up prices and hitting those with the least capacity to pay.' Yet that is exactly what government protection of the car industry does.

Domestic protectionism raises the cost of cars produced more efficiently overseas, putting them beyond the reach of Australian families. But there is a very cheap and easy way for the government to provide Australians greater access to more fuel efficient vehicles—cut Australia's tariff barriers.

Consumers and taxpayers aren't the only ones bearing the costs of a protectionist industry policy. Giving handouts and protection for one industry—in this case the car industry—hurts other domestic producers. At a time of record low unemployment, providing assistance to one favoured industry hurts others by artificially skewing employment away from more efficient industries. Australia's best and most productive miners struggle to find skilled workers to meet surging world demand. Instead, workers are employed in industries which can only afford them due to government support. By contrast, open markets force Australian firms to be more competitive and to focus on the areas where we have the greatest skills.

The automotive industry has secured billions of dollars of subsidies from state and federal governments over the last few decades, at the expense of consumers. The Bracks review of the car industry presents the government with an opportunity to redress this situation. It's time to bring down the trade barriers. It's time to end politically motivated subsidies. It's time to think of the consumer. The coalition should mount the case for economic reform, free trade and consumer interest.

In government, the Liberal Party became too removed from its core beliefs. The answer to the question 'why should we vote for you?' is never found by reference to a spreadsheet of spending commitments or a compendium of policies. The answer is found in a party's philosophy and narrative with policy as its expression. The Liberal Party is, and should be, the party of small government and personal liberty. If the Liberal Party won't step up, who will? The Liberal Party needs to re-embrace its *raison d'etre*.

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