Assistance to Industry Needs New Strategies
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Fallout over sugar's exclusion from the Australia-US free-trade agreement has once again put the spotlight on the question of how much money the Australian government should devote to industry assistance.

An honest and open debate over industry subsidies including sugar will be healthy for Australia. But it should not be restricted to federal aid. The most serious flaw in our system of corporate welfare is the interstate bidding war among states and territories.

Total industry assistance by state and territory governments amounts to $3.3 billion annually about as much as is spent on policing. Not only is the amount substantial, but our research suggests there is a political cycle in industry assistance.

Comparing Productivity Commission figures for industry assistance in 2000-01 and 2001-02 (the latest figures available), we found that during an election year, state and territory governments raised corporate welfare by an average of 33 per cent.

By contrast, in non-election years, industry assistance seems to be basically unchanged. Governments seem to hope that splashing around a little extra pre-poll cash will help endear them to the punters.

One valid rationale for assistance is to mitigate the potentially devastating effects of structural unemployment when large employers shut down operations.

Providing assistance for retraining and relocation of redundant workers is extremely important. In limited circumstances, it may even be preferable to provide assistance directly to the firm to keep it viable. But this should be provided federally, ensuring co-ordination, and preventing a race-to-the-bottom competition between states.

We propose two alternatives. First, we should demand transparent, quantifiable statements of the benefit an industry assistance package is expected to bring to the taxpayer. With public expenditure comes public accountability, and commercial-in-confidence should not be a smokescreen for governments.

A second alternative would be for states and territories to replace industry assistance programs with more direct forms of job creation. Here, the best strategy would be for states to create an earned income tax credit a work subsidy to make employment more attractive for low-wage workers. The money could either be paid as a direct state wage subsidy, or administered federally through income tax.

Wage subsidies have been effective in the US, where about one-third of the states offer some form of tax credit to low-wage workers. State income tax credits have been shown to lower poverty and unemployment.

With Labor governments in power in every Australian state and territory, the heirs to Ben Chifley might consider which approach he would have preferred: selective tax breaks to large corporations or wage subsidies for all low-paid workers? There are smarter ways of creating jobs for those who need them most.