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Dinosaur that ate Holden

When Holden announced it was leaving Australia one of the principal reasons it cited was the high value of the Australian Dollar. Labor vented its outrage and blamed the Abbott Government. Later in the week Labor had a little party to congratulate itself on the decision to float the Dollar some 30 years ago. Apparently it dawned on no-one that there could be any connection. Or, if it did, no-one was saying.

Which illustrates what Labor does well and what it does badly. More of that later.

The value of the Australian currency is set by buyers and sellers who are trading the currency in a continuous market. The dollar is worth what a buyer will pay for it at any particular time. Just like a house. The value of your house is what someone will pay you to buy it.

When the Government gave up trying to influence the price of the currency it decided that the country, and every company that manufactures in it, would have to live with a currency set in the market. It could follow mineral prices up or down. It could move on a crisis of confidence. But the point is that it would be set by traders. The Government was taking no responsibility to get it to a level that would help exporters or families or anyone else. And certainly not to a level that would help car manufacturers. In this respect Holden was on its own and has been for 30 years.

Another decision for which Labor takes great credit was the decision to wind down tariffs. The tariff (or duty) charged on imported passenger cars was 57.5% in the late 1980s. Under Governments of both political persuasion it has been reduced bit-by-bit to 5%. This reduced the “protection” of the local industry against imports. Low tariffs and import competition meant that Holden could only survive by becoming super competitive,

Our tax arrangements for the car industry are, in fact, super competitive. We have a low 10% GST on cars and we have no tax on car exports. We have generous fringe benefit concessions to encourage fleet buyers. But there is one area where the car industry is not super competitive-in fact not competitive at all- and that is in the area of employee conditions such as leave, allowances, hiring and firing practices, and union interference in management.

The unionized car industry with all of its feather-bedded practices grew up behind a wall of protection in the Australia of the 1940s, 50s, 60s, and 70s. When that system was swept away, it was on the road to extinction unless the industry got its work practices to international standards. It made some improvements. Governments of both persuasion began providing taxpayer subsidies to soften the blow of adjustment. But in terms of work practices it was a dinosaur trying to adapt to a new environment. And this is one area where Labor (and its industrial arm in the Trade Unions) would never let it get competitive.

So last week Labor congratulated itself on its decision to float the Dollar and reduce tariffs and then tried to pretend that the forces they unleashed had nothing to do with the demise of manufacturing including our biggest manufacturing industry (which was) auto parts and assembling. They are lucky they have this bogeyman called Tony Abbott who is responsible for everything bad that happens in Australia because that allows them to claim responsibility for all that is good.

Which illustrates what Labor does well. It re-writes history with a view to political advantage.

The floating of the dollar and the entry of foreign banks was the right decision. But it is clear no thought was given to implementing the decision in a way that would prevent the flood of credit which fuelled inflation and eventually led to record interest rates. The flood of credit also fuelled the rise of the 1980s “entrepreneurs” who used it to bid up prices in companies that eventually collapsed. Australia suffered its worst recession in 80 years. The Recession is generally omitted from Labor accounts of the period.

The withdrawal of the tariff was right but since it was not done in conjunction with industrial relations flexibility it stranded business between uncompetitive domestic costs and super competitive imports. The policy was not thought out and reform was not consistently implemented.

This illustrates what modern Labor does badly. It cannot make the connections in economic policy. Or, at least, it cannot admit to them since it is politically tied to the Trade Union movement. It wants to protect a system of Trade Union influence that belongs to a world that has passed.

I like the pictures of former Prime Minister Ben Chifley welcoming the first Australian made Holden off the Assembly line. Old Chif could make the connections. He knew that a highly unionised, high-wage, domestic car manufacturing industry could only survive behind a huge tariff wall. Old Chif knew that it wouldn't sit well with a deregulated financial system. In fact Chif thought the regulated system wasn't enough. He wanted to nationalise the Banks. He was a true-blue Labor man.

These days modern Labor men (and women) want to be in favour of all that deregulation Chif was against- but they still want the same regulated work practices in a unionized workforce led by a trade union movement that provides resources to the Labor Party for their political advancement. They can't afford to make the connections. It is easier to re-write history.

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