A Modest Member

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Why carry a $300m car subsidy?

I had hoped to be cheerful at that time of the year, but instead I had to embark on a long moan of unhappiness. I now return to the subject.

I always regards Eccles' figuring with suspicion when he moans about the high cost of tariff protection.

So I asked the research section of the parliamentary library, those dedicated bodies who beaver about in the bowels of the building, to work out the cost of the protection which the car industry receives.

They came up with the staggering estimate that the subsidy equivalent was about $300 million a year.

This works out at direct cost of about $600 for each passenger vehicle.

To this must be added the sales tax on the duty, plus the dealers' mark-ups on the duty and before you know where you are, you would be getting close to a cost of $1,000 a car.

Why have we made such a mess of our car industry? Our steel is as cheap as anywhere else. Our labour is good, we are told.

Why do we need to subsidise the industry at the rate of $300 million a year, a subsidy paid, mark you, by exporters in the end?

The trouble is that we have forced the use of an uneconomic percentage of Australian-made components and we have too many manufacturers of cars.

The US has three to supply a market for 10 million cars. Japan has nine for a market of 6.5 million. We, on the other hand, have four for a market of about half a million.

The way to have economic car production is to make a large number of cars to carry the high fixed costs of tooling, and to allow manufacturers to buy their components cheaply.

But in the past we have forced car manufacturers to use expensive Australian components, and now these new plans will force them further along the same sorry road.

Eccles says that we should learn from the example of Sweden. The Swedes hardly protect their industry at all. They have only two manufacturers, the big one Volvo and the smaller one SAAB.

They allow these to buy their components where they like, and Volvo has a local content of about 65 per cent. The two supply about 40 per cent of the Swedish car market, which is for about 300,000 cars.

But because the Swedes are allowed to follow the path of economic development, they are able to export cars all around the world.

Volvo exports 75 per cent of all the cars it makes, with over a third of these going to the US and Canada. Volvo's exports brought in $700 million last year.

This is very close to the total of all our secondary industry exports, cars and everything else. In contrast, we subsidise our industry at the rate of $300 million a year.

Our steel is about the same price as theirs, our wages are much the same; their population is eight million compared with our 13 million. Why do they do so well and we so badly?

It is only because our protective policy has encouraged the proliferation of too many car manufacturing companies and forced them to use too great a percentage of Australian components.

If we only had one or two car manufacturing companies we would save ourselves $300 million a year.

We would have more people employed in making cars, because we would be able to meet the competition from cars assembled here and cars imported in a built-up form, which have to now surmount a 45 per cent tariff wall.

We would not need protection, so there would be plenty of competition to keep the Australian manufacturer honest.

And above all, we would have a chance of exporting cars in competition with the world.

Instead of this, we force production into an uneconomic straitjacket, so the cost of protection goes up and up and Fred and his fellow exporters pay an extra $300 million a year.