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Edging closer to the trap of protectionism

Both sides of politics deserve the scorn of the electorate for dishonesty on key economic concerns, writes Michael Costa | *March 06, 2009*

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THE political opportunism displayed by Kevin Rudd and Malcolm Turnbull, in response to Pacific Brands' announcement that it was moving some of its operations offshore, is unworthy of national political leaders at a time of national difficulty.

Admittedly, Wayne Swan's silly claim that the stimulus would be spent "on socks, jocks and polo shirts" provided Turnbull with a target he unfortunately found impossible to resist. Presumably Swan's comment was meant to deflect criticism that much of the stimulus would be spent on expensive imports such as flatscreen TVs and MP3 players. But if Turnbull embarks on a strategy of claiming that every job loss is the result of the Government's failed fiscal stimulus he deserves to lose credibility. And he will.

Pacific Brands, as chief executive Sue Morphet, made clear, has been considering the move for some time. While it's regrettable that nearly 2000 workers will lose their jobs, the decision has nothing to do with the efficacy of fiscal stimulus. Pacific Brands is not the first, nor will it be the last, company that moves manufacturing offshore. Whether its brands are nationally recognised is no reason for its management to be judged by a different standard to any other responsible to its shareholders.

Turnbull's mistake is that by linking job losses to the fiscal stimulus, he is playing into the Government's hands. The stimulus was never primarily aimed at avoiding all, or even the majority, of the job losses that will inevitably occur as a result of the asset price bubble bursting. The Government's aim has always been more political than economic. It is desperate to avoid the technical recession of two quarters of negative growth.

Theoretically, all other factors being held constant, if you spend enough you could achieve this result. The Government knows the GDP impact it wants its spending to have in the short term, and has made an estimate of assumed multiplier. Nevertheless this form of aggregate data manipulation is fraught with difficulty. The reason stimulus packages need to be large is the multiplier is less than one. But how much less than one will not be clear for some time and is likely to change in time if economic conditions continue as they are. The other problem for the Government, as the December quarter GDP figures show, is that it can't hold other factors constant.

The Reserve Bank's decision on interest rates this week highlights the economic folly of the stimulus package. Monetary policy is the most effective economic response. The Reserve Bank has not even exhausted traditional monetary policy. Fiscal policy, if used, should be supporting monetary policy, not substituting for monetary policy. The stimulus package clearly constrained a further reduction in interest rates.

Turnbull would be on surer ground if he were focusing on this and on the quality of the spending and its impact on Australia's economic position at the time of the recovery. The timing of the recovery is outside the Australian Government's control, but bad policy can only inhibit the speed of recovery.

Many would rather see spending directed towards ensuring medium-term economic competitiveness. This would be achieved by focusing on fiscal infrastructure and sustainable reductions in the cost of government. Jeffrey Sachs, an economist not known for his neo-liberalism, argues that "massive deficits and zero interest rates might temporarily perk up spending but the risk of a collapsing currency, loss of confidence in government and growing anxiety about (its) ability to pay debts could frustrate rather than speed recovery of private consumption and investment".

The Government's response in many ways is even worse than the Opposition's. The Opposition, particularly because it has little prospect of winning the next election, can attempt to justify its response as part of the theatre of opposition. The Government's response has been to feign shock, horror and general moral outrage. The believability of its response was severely damaged by the revelation that the Industry Minister, Kim Carr, had known about the plans for more than three weeks. The moral outrage

focused on the CEO's salary and the company's ungrateful response to government assistance rings hollow. The Government should have been aware that the assistance it was providing the sector was only delaying an inevitable transfer of production offshore. Structural change in the clothing, textiles and footwear industry has been occurring for many decades. The Hawke and Keating governments had plans in place to manage the structural adjustment. It has been estimated that Pacific Brands has received tens of millions of dollars of taxpayers' assistance.

The real embarrassment for the Government is not that structural adjustment is continuing in the clothing textiles area but that assistance is not able to keep jobs in industries that are no longer competitive. Government assistance to the auto industry will be another example of wasted taxpayer funds. Politically, the effect of Pacific Brands's decision is that any industry assistance packages proposed by the Government will be treated with scepticism. As they should.

The Government's feigned moral outrage is dangerous. It creates a climate for protectionism. The public is entitled to ask: if you're so outraged by what appears to be a straightforward commercial decision, why haven't you taken more decisive action to keep these jobs in Australia?

The framing of the attack on Pacific Brands around the symbolic Australian nature of the product feeds into growing protectionist sentiment around the world: the US stimulus package with its, albeit watered-down, "Buy American" provisions and Gordon Brown's misguided plea of for "British jobs for British workers". If more Australian companies move offshore for commercial reasons this issue could come to haunt the Government. It already has a problem trying to explain why textile workers' jobs are less worthy of support than auto workers or construction workers.

The Government posturing on executive salaries is classic diversionary politics. If you can't do anything about the job losses, deflect attention elsewhere. At least here the Government has shown misguided consistency. Rudd has already attacked capitalism, as a system that fosters greed; he might as well join the Australian Council of Trade Unions in attacking individual CEOs as greedy. Morphet's salary, while large, is hardly at the top end of the scale for Australian CEOs. Although what the size of her salary has to do with the morality of the decision Pacific Brands made needs to be explained. If she was earning half or a third of her current salary, would the decision have been OK? The Government at a time of national difficulty should stop being divisive and focus on honest explanations of problems and sound policy rather than political expediency.

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