Resolving the ambiguity that surrounds our car industry

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The Federal Government’s decision to make changes to how FBT claims are processed was prompted by the desire to ensure that the transition to a floating Carbon Price (earlier than planned) had a neutral effect on the budget. Those who seek to claim FBT will now have to keep records for 12 weeks over the period of 5 years – to prove, as their claim for FBT infers, that they are using their car for business purposes. Up until the change was announced a person could make a claim for FBT without actually demonstrating or being required to demonstrate that the car in question was being used for business purposes.

Surely this is to be welcomed. It will mean that if a person has been claiming FBT improperly in the past, it will be harder to do so in the future. However the decision to bring greater integrity to the taxation system has not been universally welcomed.

A coalition of car manufacturers, car leasing companies and salary packaging industry representatives are seeking a meeting with the Federal Government to discuss the recent announcement regarding the FBT. They are concerned that the decision to improve the integrity of the taxation system could have dire and unintended consequences to the car manufacturing industry and in turn the car leasing and salary packaging industries.

The most dramatic effects of the change to FBT claims are said to foretell the loss of jobs and the death of several interrelated industry, but are these claims well founded? I am not in a position to make a determination. However what is clear is that any calls for the Federal Government not to implement the proposed changes cannot be entertained. If the Federal Government’s announcements are accurate, it is expected that the change will provide savings of $1.8b. In other words FBT claims of $1.8bn are wrongly being paid out. Surely we cannot simply ignore this misappropriation?

In seeking to answer this question we cannot ignore the fact that it comes amidst ongoing community discussion as the future of the car manufacturing industry in Australia. These discussions have highlighted the existence of two, diametrically opposed groups; those who would remove all tariffs and government assistance packages that seek to prevent the demise of the car manufacturing industry and those who support the status quo.

What the latest manifestation of this discussion highlights is that as a community we have a choice to make; do we protect or do we support our car manufacturing industry?

Some may think that the difference between ‘protect’ and ‘support’ is merely semantics. Although the words are similar, and may be used interchangeably in some situations, a clear difference can be substantiated for present purposes. To ‘protect’ denotes a lack of agency on the part of the car manufacturing industry; it is a passive recipient, not required to respond to market changes or conduct research and development. In contrast, support requires the car industry to evolve, to conduct research and development and ultimately respond to market changes. The former is infinite in its duration, the latter is finite.
The car manufacturing assistance package agreed to by car industry representatives and governments has not conclusively resolved the stance that has be taken: to protect or to support. The fact that the package is to have a lifetime of ten years and requires car manufactures to make a corresponding investment would seem to suggest that the approach we tend to favour is one of support.

What we have before us is a chance to resolve the ambiguity that surrounds our approach to the car manufacturing industry. If we are to protect the industry, then the proposed changes to FBT should be reversed. Yet, if it is our desire to support the industry, then the changes should proceed as planned.

In resolving this ambiguity much has to be borne in mind. A decision to protect the car manufacturing industry involves both financial and non-financial costs. Government assistance packages have an obvious financial cost, and this may grow as competitors invest in research and development and our car industry remains static. Further there is the opportunity cost; the cost associated with not being able to spend the money that provides for the government assistance package on something else. Perhaps that same money could have been spent on building a new industry: an industry that does not require constant government assistance packages?

But there are also costs associated with deciding to support, rather than to protect the car manufacturing industry. Support, by its very nature, is to be finite. Thus our decision to support may require us to let the car manufacturing industry cease to play a major role in our economy. Now the obvious ramification of that will be a loss of jobs, both directly and indirectly. There will be a direct loss of employment with the car manufacturers themselves. The indirect loss of employment will come with the loss of employment in the industries and workplaces that support the car manufacturers. Further there is the ramifications that the loss of employment will have on the communities in which these workplaces, factories and employees are located. The families of the former employees will experience a significant decline in their spending power and hence a corresponding decline in spending and employment in local shops, businesses and services can also be expected to follow suit.

Losses in employment can also be expected to attract a greater demand for support in the community in the form of unemployment benefits: adding greater strain to our public budgets. If this does eventuate, then we may also expect to see an increase in family stress, family breakdown, poor health outcomes, and ultimately community dissociation.

Now many of these costs may not eventuate, or at least eventuate to that extreme. However what it does demonstrate is that we have to be acutely aware as to the ramifications of any decision regarding our car manufacturing industry.

The Federal Government announcement on FBT is greater than simply a discussion on the Carbon Price or the integrity on the taxation system. The decision provides a watershed moment, a chance to resolve the ambiguity that surrounds our car manufacturing industry. Some may wish bury their head in the sand, whilst others may claim that the dire predictions made by industry representatives are baseless.
Neither are acceptable stances to take. Whilst the ambiguity provides that either a protective or supportive approach to the car manufacturing industry remain possible, this scenario comes with costs and risks. The longer we wait, the more limited the opportunities for action become. If our approach is to be one of support, as it seems, then this should be made known now. Although it may preordain the end of the car manufacturing industry, it also provides ample time to support the creation of a new manufacturing industry, new employment and community stability. Surely this is better than the ambiguity that currently surrounds our car industry.

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