
1 Introduction

Assistance is defined in the *Productivity Commission Act 1998* in very broad terms as:

... any government act that, directly or indirectly, assists a person to carry on a business or activity, or confers a pecuniary benefit on, or results in a pecuniary benefit accruing to, a person in respect of carrying on a business or activity.

Assistance to industry takes many forms. It includes tariffs, quotas, anti-dumping duties and regulatory restrictions on imported goods and services, as well as tax concessions and subsidies for domestic producers. Local producers may also benefit from services provided by government agencies which are not priced at their full cost.

Assistance generally provides benefits to the firms and industries that receive it, but comes at a cost to other sections of the community or economy. For example, direct business subsidies increase returns to recipient firms and industries, but come at a cost to the public purse. To meet this cost, governments must increase taxes and charges, cut back on other spending, or borrow extra funds. This adversely affects other parts of the economy. On the other hand, in some cases, certain forms of industry support — most notably R&D support — can deliver net community benefits.

The Commission has a statutory obligation to report annually on industry assistance, and its approach contains several elements:

- estimates of effective assistance to agriculture, manufacturing and mining;
- budgetary assistance estimates;
- estimates of trade restrictions in the services sector;
- data on anti-dumping and countervailing activities; and
- information on other changes in assistance arrangements for specific industries.

The Commission's estimates apply predominantly to Commonwealth assistance schemes, although certain State-based arrangements which have national impacts are also included in its estimates of effective rates of assistance to agriculture.

The estimates and related information help to reveal which groups in the community gain and which groups lose from industry assistance. They can also highlight the community costs of inappropriate industry support, and thus provide information to help governments to adopt welfare-enhancing policies. There are some methodological and coverage differences between the different sets of estimates, as well as some areas of overlap. Nevertheless, the Commission's broad approach to the measurement of government assistance is intended to aid transparency and facilitate analysis.

Last year's Trade & Assistance Review drew comment in different quarters about its coverage and measurement of assistance to industry. One criticism was that the Review included government support for activities such as research and development (R&D), adjustment, and the exploration of market opportunities, that governments *should* support (Amery 1999). Another view was that the Commission takes a 'conservative approach' to measuring some forms of industry assistance (Van Dyke 2000).

The Commission's approach takes as its starting point the definition of assistance in the *Productivity Commission Act 1998* — that is, government programs that support people carrying on a business or activity. As pointed out in last year's Review, however, the Commission does not seek to include all government support to industry in its assistance estimates. Rather, the estimates cover those measures which *selectively* benefit particular firms, industries or activities and which can be quantified given practical constraints in measurement and data availability. Detailed information on the Commission's approach to measuring industry assistance can be found in appendix A of last year's Review.

The estimates provide a broad indication of the resource allocation effects of selective government industry policies. Assessing whether the benefits of any particular industry support program exceed its costs involves case-by-case consideration — a task beyond the scope of the Trade & Assistance Review.

For this year's Review, the Commission has enhanced its assistance estimates in four ways.

- It has converted its existing estimates of manufacturing assistance (for all years from 1968-69 to the present) from an ASIC-based to an ANZSIC-based industry classification system.
- It has calculated new projections of manufacturing assistance to 2005-06.
- In reporting the incidence of budgetary assistance, it has augmented its normal four sector split of the Australian economy with an ANZSIC-based 27 industry classification.

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- It has also provided a breakdown of the economic activities — R&D, exports, investment etc — to which different budgetary assistance schemes are targeted.

These changes provide more detail on the distribution of assistance and improve the comparability of the estimates.