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SUBMISSION TO THE SENATE STANDING COMMITTEE ON RURAL AND REGIONAL AFFAIRS AND TRANSPORT

PROJECT KNOWN AS THE IRON BOOMERANG

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AUSTRALIA'S NEED FOR STEEL

There is a lot of talk at the moment about getting rid of fossil fuels and having electric vehicles instead. However this can't be done overnight because it takes decades to build the mines to produce the commodities and materials required in order to do this; nickel, copper, manganese, cobalt, graphite, lithium to name a few, and then aluminium, rare earth metals for lighweighting. Then of course the charging network.

Huge amounts of electricity will then need to be generated to charge all of the vehicles and this opens up the requirement for energy so we still come back to fossil fuels or nuclear energy as being part of this mix. Many energy plants will need to be built and this will require steel. Water infrastructure needs to be built as part of the mix to increase Australia's productive capacity over the long term and this requires steel.

Idealism is well and good but the reality is there needs to be a transition process from fossil fuesl to other forms of electricity. Part of this is building enough mines and manufacturing capability for Australia to become a meaningful player in this process which will necessarily take multiple decades.

If fossil fuels are going to have to be used anyway, then why not use the coal to make something we can use to value-add in the supply chain, to get more bank from our fossil fuel buck and push us in the right direction.

To build this capacity then a lot of steel is required just to build the mines to get the materials out of the ground. Having to rely on importing steel from overseas puts us in a weak position and in situations like now when the AUD is weak makes building mining and manufacturing capacity prohibitive.

For large established companies perhaps already getting paid for commodities in USD some of the costs can be offset, but there is also the network of domestic suppliers servicing the large companies that need to be supported. For these sorts of businesses operating domestically a weak AUD is penal.

A weak AUD is also penal for other sorts of business requirements such as marketing and technology services which are often paid in USD, and if Australia wants to make more stuff then we're also going to have to sell it to other countries and become great at building and sustaining relationships, and this mean communications infractructure as well.

One way to promote a strong AUD is to import less and so if Australia made it's own steel that would help. If we are just using our own currency to trade between oursleves then there would be less susceptibility to exchange rate fluctuations and vulnerability to external factors beyond our control, for example other countries governments waging war with each other, or otherwise having their economies shut down for the self-serving interests of a few, not for the benefit of the people. A lot of this has been happening lately and unfortunately it may continue.

There's another problem. When we sell off our assets to foreign business interests then they take the profits, and we retain little capital for reinvestment.

So the funding and ownership of this project need to be set up in the right way so that the profits stay in Australia, with ability to be reinvested, so that this mega-project is just the beginning of the birth of many new businesses as a result. The obvious solution is to reinstate a National Development Bank so Australia can take control of it's on destiny.

There's no reason why private companies can't run many of these critical national projects and assets, with the Australian government still retaining substntial ownership as a silent investor on behalf of the people, and receiving a dividend from that.

When it comes to utilising foreign capital, then do it by selling long term bonds not selling the farm. Selling long term bonds successfully will require a strong and stable AUD and becoming more self-sufficient (less imports) in critical nation-building assets such as energy and steel will assist in that goal.

Our choice is to continue down the path of being a consumer economy serving coffee and fast food to each other as we build houses made from still more imported materials, or make the decision to finally do something with our abundance of high-tech-potential commodities and energy resources harnessed with water from the top-end.

With a substantial value-adding productive sector multiplying revenue, then all of the business support services such as financial services, marketing, will also thrive, followed by human services such as coaching and mentoring, and then we will have ample funds available to invest in looking after our land, water, oceans, and air, and people.

Entrepreneurs know that the only way to get anything done is not to wait for the perfect time or until all the stars are in alignment, but just to take the first step now.

APPENDIX:

THE ECONOMIC ASPECT

Tabled: 22/2/2007

https://www.parliament.qld.gov.au/documents/TableOffice/TabledPapers/2007/5207T995.pdf

Content written in the 1980s

Australia's greatest social and economic problem is the worsening stagnation of the Australian economy and 7% unemployment. This results from tight monetary policies which include the high cost of money at a bond rate of 17% and a high level of statutory reserve deposits.

The Monetarist Economic School and their quintessential exponent Milton Friedman, contend that if the growth of money is greater than the growth of goods and services, then you will get inflation, the greater the disparity the greater the inflation. I.e., as a rough general principal, if money (M3) grows at an annual rate of 14% and the Gross Domestic Product grows at 3%, inflation will be 11%.

Another argument which, of course, is seldom voiced publicly, is that tight money causes unemployment: unemployment holds down wage rises which otherwise would be passed on to the consumer as price rises.

This unemployment argument surely is unacceptable: that we should protect the purchasing power of our money by breaking the backs and hearts of 7% of the population that we will have thrown on the dole is, one would hope, not an acceptable method of arresting inflation.

Though in the climate of the wages stampede of the Whitlam Era Mr Hayden, and even Mr Uren, felt this medicine had to be dealt out. Friedman and the monetarist approach to economic management provides the lynch pin of policy in the U.S.A., Great Britain and Australia at the moment. It is succeeding in restraining inflation, but is, in fact, causing economic stagnation. Thus the rate of growth of G.D.P. on a per capita basis is slowing and, more importantly, unemployment levels have remained substantially unchanged from the days of the Whitlam years.

To continue with present economic policies will be to continue with the present levels of unemployment and, of course, the high taxation to meet the dole cheque of some $3.9 billion per year (see p. 22) If these people were working instead of being a burden on tax pool they would probably contribute over $2.2b (on the 1982 experience) in taxes alone and save another $0.5 billion in medical and welfare services into the bargain, a total of some $4b.

If money growth was restricted to an area of the economy that would show a corresponding growth in goods and services, of course there would be no inflationary pressures*.

(* Except again through inflation created by wage increases, i.e. cost push inflation.)

This was the conclusion reached by the New Deal Economists in the United States during the Depression, who launched, under Franklin Roosevelt, upon massive water and hydro-electric developmental schemes. America, throughout the middle and most particularly the late thirties, quite literally worked its way out of the Depression.

Not only did they get the economy working again, but the Tennessee Valley Authority Projects and the Colorado water and electricity developmental schemes became the best known and amongst the nation's greatest national resources.***

(*** N.B. Whilst the U.S.A. went through the Depression with unemployment levels of 15%, Australia's unemployment levels during the same period hovered close to 30%.)

The Japanese economic miracle similarly has combined the highest growth rates in the world with only moderate inflation because here the strong relationship between Government and business (the Zaibatsu) coupled with strong Government control over credit, has meant that **Japanese industry, wherever they can prove that a requested loan will result in an offsetting growth in goods and services, the loan will be made. The Government of Japan has the financial control needed to supply the necessary credit.**

In Australia, with a totally unfettered banking system, a loosening of credit would probably only mean an increased ability by the city rich to buy and sell real estate to each other - a good example of an increase in the supply of money without any offsetting growth in goods and services.

Again, and to quote one final example, the Whitlam Government borrowed heavily, deficit budgeting to increase tremendously the growth of money supply (the Government's fall, for example, followed disclosure of attempts to borrow over a billion dollars to allow Government purchase of Australian mining resources.) This money was used to provide free health care, free university tuition, increases in social security payments and the purchase of resources from the private sector (e.g. Mary Kathleen and Jaburu), all arguably admirable social objectives but none which would result in an increase in the amount of goods and services moving into the economy. A vast increase of money in the economy and no change in the annual amount of goods and services being produced caused inflation to leap in two years from 7% to over 20%*.

(* There is always some idle plant capacity so an increase in money supply and its consequent demand pressures should always result in some increase in production. This increased production of goods and services is normally only enough, however, to *offset* the growth in money supply which triggered it.)

Now the whole object of this statement, and re-statement of fundamental economic truisms, is to assert that whilst Australia has 7% of its work force at great expense to this nation ($4b) lying idle, the Government should borrow money to spend on public works that will result in **a compensating increase in the amount of goods and services becoming available within the Australian economy.**

A scheme such as the diversion of the Coastal rivers of North Queensland onto the inland plains of Central and North Queensland should enable some million acres of production of cotton and wheat to commence as well as probably the provision of 750 mw of hydro electric generating capacity. This would more than compensate in the long term for any increase in money supply necessary to finance such a project, though obviously there would be short term inflationary pressures created by any such increase in expenditure on capital works.