

SUBMISSION

Inquiry into the Australian Manufacturing Industry

The Secretary,
Senate Standing Committees on Economics
PO Box 6100,
Parliament House,
Canberra ACT 2600

I welcome the Inquiry and the Committee's broad focus in addressing a very important issue.

As the impact of the Covid-19 pandemic continues to wreak havoc with the global economy, and as Australia and many other nations are brutally confronted with the reality of their own economic vulnerabilities, a welcome revival of serious economic discussion has begun to emerge within Australia. This is even taking place within what are normally characterized as both the "left" and "right" of the political spectrum.

For 50 years a "neo-liberal" economic paradigm has been hegemonic in Australia and internationally, an arrangement essentially neo-Keynesian in outlook and practice, but with significant chunks of the "Austrian School" thrown in. It is axiomatically a "monetarist" paradigm, and all economic policy has been subjugated to Anglo-American banking and financial interests.

Under the imperatives of this post-1971 system we have witnessed the destruction of manufacturing, science and infrastructure in Australia and a descent into misery in many of the poorer nations throughout the world. The effects of the pandemic, have created a potential for a fundamental, even revolutionary, change in direction.

There is now serious debate, centering around an urgent necessity to rebuild Australia's manufacturing base. The question of rebuilding the nation's infrastructure has also become a matter of serious bi-partisan concern, although Australia's major political parties (particularly with a Federal election looming) seem, as yet, too pre-occupied with partisan concerns to effectively join in taking action.

A manufacturing industry is at the core of any modern industrialised society. It is the essence of the secondary sector of the economy in which raw materials from the primary sector are transformed into finished goods on a large scale - it is the production of goods through the use of labour, machines, tools, and chemical or biological processing or formulation.

The manufacturing sector is closely connected with engineering and industrial design and includes intermediate processes required in the production and integration of a product's components. The manufacturing process begins with the product design, materials specifications from which the product is made, and their modification through manufacturing processes to become the required finished product.

It is a complex process and requires an educated, skilled workforce. On a more fundamental level, what also needs to be recognised is the creative potential which exists within every human being. Australians, like all peoples, are not mere beasts of burden or cyphers - they possess the power to invent, to discover, and to socialize those discoveries, reflected in the manufacturing process. It is the proper responsibility of Government to nurture and foster those creative potentials within a free citizenry and through science, invention, and technology, the human condition, and human culture, can be improved and advanced to higher levels. This is not people serving the state, but the state providing the means whereby human productive power, civilization and general welfare for present and future generations might advance.

The process also requires large amounts of reliable energy in the form of electricity and to

have an effective and reliable base load power to provide it.

Manufacturing also provides important material support for national infrastructure and for national defense.

Prior to World War II, Australia was an agrarian backwater, but the national emergency of needing to defend ourselves from Japanese invasion drove a stunning transformation of our economy under the leadership of Labor prime ministers John Curtin and Ben Chifley and their Director of Munitions, BHP's Essington Lewis. In the space of just three years, Australia went from being unprepared for the logistical challenge of supplying a war effort to being able to manufacture literally anything - especially, and most crucially, machine tools, the machines that make machines that are the core of any manufacturing capacity. US General Douglas MacArthur would later describe the transformation as his single greatest shock of the entire war,

Post-war Prime Minister Ben Chifley was determined to consolidate Australia's manufacturing capacity, and put it to use developing Australia to build the peace, just as it had so ably supplied the war. He envisioned Australia building great development projects to transform the productive capacity of the nation, starting with the Snowy Mountains Scheme.

Chifley legislated for the Snowy Mountains Scheme, on which construction began in 1949, to also be funded through national credit from the Commonwealth Bank, but his successor Robert Menzies was ideologically opposed to the Commonwealth Bank as a national bank and funded it through taxation instead. In the Parliamentary debates over its funding, the ALP's Charles Morgan argued in 1952: *"If a factory owner wishes to extend his factory, a farmer to erect new farm buildings, or a worker to raise a home, he does not do so from current income; he raises a loan and pledges his future to repay the capital so raised. Surely the same principle can be applied to national construction, particularly in relation to such important developmental works as the Snowy Mountains hydro-electric scheme, which is of paramount importance to Australia. Surely that scheme could be financed by national credit and the resources of the Commonwealth Bank, without recourse to current revenue. Work on the project could be speeded up considerably if such a project were adopted. We have been able to raise millions, and even billions, of pounds for war purposes. Why cannot we also raise money for peaceful purposes?"*

It was not free market "demand", but Ben Chifley's government leadership which was to identify that Australia needed a domestic car manufacturing industry to be the focal point for Australian manufacturing and machine tool development.

Of the companies that submitted plans for domestic car production, the government chose General Motors-Holden because it was the best equipped to move quickly, but the company was unwilling to make the investment, concerned about the constraints of Australia's small market. In other words, if left to the "market", Australia would never have had a domestic car industry. Knowing the importance of this investment, however, the Chifley government made the investment, using national credit from its national bank, the Commonwealth Bank, which had ably demonstrated its ability to make such investments during the war. The Commonwealth Bank's loan to Holden in 1947 set Australia on the path to becoming a manufacturing powerhouse, at its peak boasting five car manufacturers - so much for a small market!

The demise of Holden is the symbolic end of real manufacturing in Australia. Australia has fallen hard since the 1960s when manufacturing accounted for more than 25 per cent of the economy. Today it is barely 5 per cent, while the parasitical paper-shuffling called financial services - dominated by banking - now accounts for the largest proportion of GDP.

Australia's decay from a manufacturing powerhouse into a raw-materials quarry and financial casino over-reliant on tourism and foreign students is reflected in our plunge down the world rankings of economic complexity. According to a 2019 study by the Harvard Kennedy School's Centre for International Development, we've fallen from 57th in 1995 to 93rd in 2017, behind Uganda and Senegal. This was not an inevitable evolution of our economy, however, but a deliberate take-down through free trade dogma. Australia can just as

deliberately get it back, using the policies that expanded our manufacturing capacity in the first place, starting with a national bank.

Both major Australian political parties are to blame for the destruction of Australian manufacturing, due to their blind embrace of neoliberal free trade as a dogma. The turning point for the car industry and manufacturing came under Labor's Paul Keating, whose import duty and tariff cuts in the 1980s and '90s to create a "level playing field", destroyed the ability of Australian companies compete with imports from cheap labour countries and to manufacture at Australian standards and wage levels.

Trevor Sykes, Australian finance journalist, wrote of this neoliberal ideology of free trade and "a level playing field":

"The concepts of totally free trade, abolition of protection and the level playing field have achieved the status of a religion in Canberra and among several of the nation's more vocal economists. Failure to worship at the shrine of the level playing field has become heresy, and sceptics of the conventional wisdom have been derided by true believers as "snake oil merchants".

On the basis that any belief which has reached religious status is in need of questioning, Australian Business announces the foundation of the Snake Oil Society. We believe SOS (symbolic initials) is needed because free trade has so far inflicted great damage upon Australian industry without much discernible offsetting benefit.

... leading Australian economists question the concept of the "level playing field", which is at the heart of present trade policy. The writers point out that the attainment of a level playing field is illusory and that Australia is liable to damage much of its remaining industry if policy remains on the present trend.

Ray Block leads off with his argument that the "concept" has become hidebound dogma which can only lead to disaster."

As federal Shadow Treasurer in the late 1970s and early 1980s before becoming Federal Treasurer under PM Bob Hawke in 1983, Keating became the protégé of the top names in the British Crown-centred international minerals cartel around Rio Tinto, BHP Billiton, etc. Early on, and then during his own stint as Prime Minister from 1991-96, he openly proclaimed that he intended to let agriculture or industry live or die on their own (after pulling down most protective tariffs) and instead to turn Australia into a giant raw materials quarry. He also proclaimed his intent to create an "Antipodean Venice" in Australia - a world-leading "financial industry", to replace agriculture and industry.

Now that Australia's China-centred "mining boom" is facing slowing down, and under the new Liberal/National Coalition government, there is more of an emphasis than ever on expanding the "finance sector" as the lynchpin of Australia's economy.

For an insight into the flawed ideology behind the destruction, see how Paul Keating justified his policies in a 26 November 2013 interview with Kerry O'Brien on ABC-TV.

O'Brien asked, "*Looking now at the state of manufacturing today: the rustbelts around the major cities; industries like cars and steel and shipbuilding still in trouble; so many skills lost, jobs exported to Asia; are you still sure it was the right thing to do the way you did it?*"

Without hesitation, Keating replied, "*Oh, absolutely! I mean, it advanced us donkey's years....*"

Pointing to the human toll, O'Brien countered, "*But many of those working people were now staring at lost jobs. Many of those working people in factories, in various jobs, skilled, semi-skilled, unskilled - gone.*"

"*Yeah - gone*", Keating responded defiantly. "*You know what they found? A better job a week later, in a growing economy, with employment growth.*"

Keating's brazenness left O'Brien astounded. This period was the beginning of the rise in unemployment that eventually peaked at over 11 per cent, and only came down through

statistical manipulation and the permanent shift from full-time unionised jobs to part-time and casual jobs. O'Brien said, "*You make it sound so simple: 'a week later they had another job'! Do you really think that's how it worked out?*"

"*We got them off the factory floor*", Keating responded. "*The aim was not to leave them doing repetitive jobs on the factory floor, but to get them off the factory floor doing better professional jobs in the big service economy of Australia. I mean, all these people got picked up.*"

In truth, the services jobs that did replace manufacturing did not create wealth, but rather at best just moved it around, becoming a non-productive overhead expense. Consequently, Australia has been unable to pay its way, evidenced in the meteoric rise of gross foreign debt over the past three decades from \$147 billion in 1988 (43 per cent of GDP), to more than \$2,515 billion (\$2.5 trillion - 128 per cent of GDP) by September 2019. Such a dependence on foreign debt puts us at the mercy of global economic events. This must change - urgently. To restructure our economy on to a productive footing that can guarantee prosperity and rising living standards for our children and grandchildren, we need to revive Chifley's national vision of Australia as an advanced manufacturing power, and his policies of national banking to invest in it.

In removing support for Australia's own manufacturing industry and increasingly causing it to move off-shore to lower-wage countries by the abolition of tariffs, quotas and bounties, Australia gradually lost the skills associated with those industries which skills were not always transferred to those other countries and hence were lost.

Australia also lost much of the machines involved in the manufacturing industry, and, more importantly, lost the machines which made machines - which is at the heart of manufacturing.

Australia became dependent on overseas imports.

For Australia, the current COVID-19 pandemic and its shut-down of global supply chains has exposed how little we manufacture for ourselves, even essential health equipment.

At the end of WWII Australia had been capable of manufacturing any machine tool we required, we developed a car industry that at one stage included up to five local manufacturers, we were an early pioneer in computing and space, being only the third country to launch a satellite from its own territory.

We have regressed into an economy overly dependent on raw materials exports, tourism and foreign students (the latter two also classified as exports), with an oversized financial services sector and housing market, and little else. Because we export unprocessed raw materials, but import sophisticated products to maintain our advanced-economy living standard, we can't pay our own way, and have therefore run up a massive foreign debt.

For four decades Australia has been at the forefront in embracing the neoliberal tenets of free trade and deregulation. In that time successive governments dismantled all support for Australia's domestic industries and privatised our national banking institutions, the Commonwealth Bank and Commonwealth Development Bank.

Internationally, the effect of the adoption of these neoliberal policies has been to bring about an extraordinary concentration of power and control in a handful of cartels which are not only in a position to exert almost monopolistic controls over many areas of food, minerals, energy, technology and manufactured products but avoid payment of duties and taxes on the excessive profits generated by the activities.

These cartels have avoided trillions of dollars of tax and this massive abuse has had a devastating effect on governments around the world, and has placed an unbearable burden on individual taxpayers and put honest local competitors out of business. The cartels generate profits in around 180 countries around the world and avoid, reduce, or delay their tax obligations, paying nothing or, at best, a small percentage of their multibillion-dollar incomes. Their favourite tool is transfer pricing, a complex and confusing array of

methodologies and strategies that works to reduce or even avoid duties and taxes altogether. This strategy operates successfully where import duties, tariffs and quotas have been removed or reduced, and supply chains extend over several jurisdictions including free trade zones.

Australia used to have a Commonwealth Development Bank, created by the Commonwealth Banks Act 1959. The Commonwealth Bank including the CDB were fully privatised and sold in 1996, Evan Jones, political economist, writing that “*the death of the Commonwealth Development Bank marks a bleak signpost for an intelligent and equitable provision of finance in the future.*”

Given the growing support in the Australian Parliament for a national investment bank - from independents to outspoken individuals in the major parties, Australia’s major party politicians need to drop the neoliberal economic ideology and also legislate a national development bank that can invest in the infrastructure and industries Australia desperately needs to get back to work.

Australia has a massive infrastructure deficit that *Infrastructure Australia* in 2019 estimated to be \$600 billion, without including visionary nation-building infrastructure such as high-speed rail between cities, a Melbourne to Darwin fast freight line, and water projects like the Bradfield Scheme to supply inland irrigation and add water to the Murray-Darling Basin.

China’s state development banks have been credited with that nation’s incredible economic success, because they ensure capital flows into economically strategic areas that ensures, over time, a far better outcome than the neoliberal ideology of letting capital go wherever it will, which has given Australia a dangerous property bubble and casino banking system. Other countries have managed an Australian-style resources boom in a way that boosted domestic manufacturing, rather than sacrifice it as Australia did. National development banks become a focus of a wide range of technical, industrial, financial and international trade expertise that fosters the development of infrastructure and industries.

The coronavirus pandemic has brought Australia’s self-inflicted decline into sharp focus. The shut-down of global supply chains exposed how little we manufacture for ourselves, even essential health equipment. The government was forced to deploy the army to Shepparton to ramp up production of personal protection equipment at the only PPE manufacturing company left in Australia. Any number of global crises, including war and a global financial meltdown, would have exposed the same systemic vulnerabilities.

This situation must be addressed urgently. Australia’s own history provides the answer: we did it in WWII when it was a matter of do-or-die necessity. We did it then with a national bank and we can do it again now, with a national development bank.

The lesson of WWII is that Australia is capable of rapid economic change. In the wartime economic mobilisation we developed a capacity to manufacture virtually anything needed for the war, to the highest level of sophistication. We funded this unprecedented economic transformation by ourselves, without foreign investment. All this was possible thanks to the Commonwealth Bank, which under Prime Minister John Curtin and Treasurer Ben Chifley in the war years was at the peak of its powers as a national bank. The Commonwealth Bank through both direct lending and through raising war loans from the public, funded the necessarily massive increase in government spending that was directed into war production.

In the war years, while Australian Commonwealth government debt soared from around 60 per cent of GDP to 120 per cent, the proportion of that debt owed overseas plunged from around 40 per cent at the start of the war to less than 10 per cent in 1944 - Australia demonstrated it could fund itself without foreign investment. Due to this debt being owed to Australians, and not overseas, government debt repayments stayed in Australia and successive governments were able to reduce Commonwealth debt from its peak of 140 per cent of GDP in 1948 to less than 10 per cent of GDP in the early 1970s while still growing the productive economy.

Australia could again transform into a manufacturing powerhouse if the government was

prepared to abandon its neo-liberal ideology and back industrial innovators and entrepreneurs with a national development bank. Such a national development bank could:

- fund, and support through technical and trade advice, the many small industrial entrepreneurs who strive to develop products that are too often lost overseas due to lack of support, which will foster growth in domestic manufacturing and diversify trade;
- make loans to local and state governments and federal agencies for public infrastructure projects that will both upgrade the productivity of the economy and create demand for expanded domestic production of steel, cement, and machinery;
- harness a significant portion of the \$3 trillion currently in Australian superannuation savings to invest in Australia's economic development through the sale of bonds for a guaranteed return (instead of Australian super being invested overseas while Australia tries to raise investment from overseas).

The missing ingredient in Australian manufacturing is political will and intent. The neoliberal monetarist ideology of Liberal, Labor and National MPs calls for the "law" of comparative advantage that dictates that Australia should quarry resources, not manufacture. Nationals Senator Matt Canavan expressed this in a bizarre 27 July 2021 appearance on Steve Bannon's online program *War Room: Pandemic*, in which he advocated war with China, and that Australia should develop new supply chains that cut out China, but should not manufacture for ourselves - "*We've got the iron ore and coking coal here*", he said, "*I'd love to send it to someone else to make steel - let's do that.*"

For Australians who want industry and not a war of annihilation with China, the political will and intent necessary can be achieved through a change in economic ideology to concentrate on a *physical economy* and the creation of a national development bank - a public bank to make flexible, low-interest loans to farmers and manufacturers who have enormous productive potential, but are denied credit by the Big Four-dominated private banking system. The government's own Joint Standing Committee on Trade and Investment Growth recommended a national development bank earlier this year, but that recommendation will just sit there unless the government is forced to act on it.

One of the growing ranks of people of vision in the Parliament on this issue is Queensland LNP Senator Gerard Rennick, who is a staunch advocate of public banks, including a national infrastructure bank (a variation of a national development bank focussed on nation-building infrastructure).

In the Senate on 11 August 2021, Senator Rennick raised a national infrastructure bank in a debate on the inland rail project:

"We have to look at an infrastructure bank", he said. "I'm just about to run off to meet the Treasurer ... to talk about getting an infrastructure bank going in this country, because we can match sovereign credit against sovereign wealth.

"A lot of people will tell you that you can't print money. Guess what? We're printing money now. We're printing \$5 billion a week, but we're spending it. That will cause inflation, because if you're printing and spending, you're going to increase demand. But guess what? If you print and build, you'll increase the supply of essential services. You'll provide more water. You can supply more power from power stations. You can provide better transport routes. Not only does that raise revenue for governments, which then means you've got fewer taxes going forward; it increases the supply of central services and it pushes down the cost of doing business. So it will make Australia much more competitive in trying to compete with other countries. If we want to bring back manufacturing in this country, we need to start building."

I agree. It was the politicians whose ideology destroyed manufacturing, not the Australian people, who have always wanted manufacturing.

There is only one yardstick for judging correct versus incorrect economic policy. Are the initiatives you are taking (as a nation) and the projects you are funding, going to produce an effect of increasing the productivity of the nation? Will your actions increase energy utilization per-capita? Will they increase potential relative population density? Will they have the effect of uplifting the conditions and cognitive potential of the population? Will all of this benefit our posterity?

In conclusion in relation to the specific issues set out by the Committee in its terms of reference in relation to the Australian manufacturing industry, with specific regard to:

a. what manufacturing capacities Australia requires for economic growth, national resilience, rising living standards for all Australians and security in our region;

I can do no better than to quote the words of Alexander Hamilton in his 1791 *Report on the Subject of Manufactures* which was a central document for what became known as the *American or National System of Economics*:-

“Not only wealth, but the independence and security of a Country, appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavor to possess within itself all the essentials of national supply. These comprise the means of Subsistence, habitation, clothing, and defence. The possession of these is necessary to the perfection of the body politic; to the safety as well as to the welfare of the society; the want of either is the want of an important Organ of political life and Motion; and in the various crises which await a state, it must severely feel the effects of any such deficiency.”

b. the role that the Australian manufacturing industry has played, is playing and will play in the future;

A strong and vibrant manufacturing industry is essential to any modern developed society. Without it such that a country is dependent on the products of others and means that that country is no longer sovereign. Similarly, without a national development bank and control over its own currency and national credit for the promotion of such an industry, no country is sovereign.

c. the drivers of growth in manufacturing in Australia and around the world;

Domestic demand for manufactured products will always be the initial driver for growth in a manufacturing industry, and then the supplying of export markets to the extent that those exports do not have an adverse impact on local supply.

Funding is also an essential element in the driving of a manufacturing industry, particularly in the provision of infrastructure which of itself requires manufacturing's products. That funding should include a national development bank and should not be dependent upon foreign investment and control.

The current banking structure of private banking concentrated in the “Big Four” plus Macquarie is not a system which is conducive to long-term funding for the creation of real wealth - instead it is focussed on short term bottom-line monetary profits built on derivative dealing, speculation and predatory and parasitic behaviour as against the real physical economy.

A functioning economy requires a healthy manufacturing industry to be able produce things of real value and a national development bank is the means of directing a country's own sovereign credit to such production and to essential infrastructure projects.

d. the strengths of Australia's existing manufacturing industry and opportunities for its development and expansion;

Unfortunately other than a potential, Australia has few strengths in its existing

manufacturing industry and the opportunities for development and expansion within the current ideology are very limited.

Reliance on “the markets” will not bring about any improvement. Leadership from Government is required with an orientation towards nation-building akin to that espoused by Ben Chifley after WWII in re-orienting a war-mobilised economy to a civilian peacetime economy employing the skills and manufacturing abilities developed by the necessities of war.

e. the sectors in which Australian manufacturers enjoy a natural advantage in energy, access to primary resources and skilled workers over international competitors, and how to capitalise on those advantages;

Australia is a country endowed with a wealth of minerals and energy sources. Australia has been squandering both by merely exporting them as raw materials without any value-adding which would come from a manufacturing industry - we have become the quarry Paul Keating proposed.

Value-adding will increase not only the monetary value of the resulting product but will retain and develop the manufacturing skills required and increase Australia’s financial returns and tax base.

The example is often given (at 1970 values) of the value lost to the economy by simply exporting our bauxite as opposed to the income that would be generated from manufacturing it first into alumina, then refined into aluminium, and finally if manufactured into finished aluminium products. The figures quoted were an astounding \$600 million for aluminium as a finished product as opposed to \$5 million for the same volume as Bauxite.

Australia has unique opportunities for similar processing of other minerals including iron ore as we also have abundant reliable sources of energy - coal, oil, gas, uranium and thorium which we have also been squandering by allowing international cartels to control and export them for poor short-term monetary returns.

With a revival of manufacturing and an emphasis on building major infrastructure such as high-speed rail, dams and other water projects, nuclear power plants for electricity generation, there would be substantial domestic demand for manufactured products and a demand for skilled workers with good, well-paid jobs and future prospects for Australia’s younger generations.

Such projects will not happen if left to the “invisible hand” or “the markets” but require government leadership and the creation of a national development bank.

A national development bank would enable Australia to develop its local manufactures and industries and add value to its raw materials and so be able to diversify its exports and not be reliant on the export of merely raw materials and not be reliant on any one market for exports.

A national development bank would also enable Australia to avoid the necessity for Australia to enter into bilateral trade agreements to secure export markets to obtain funding for imports of products which Australia could and should manufacture. Both countries in such a bilateral trade agreement would then be exporting either their own surpluses or products which were specialised or had particular benefits (not being mere low-cost wages or the use of “free trade zones” to avoid taxes and duties) and would thereby avoid adverse impacts of bilateral trade agreements on Australia’s exports and avoid them contributing to concentrated export markets.

f. identifying new areas in which the Australian manufacturing industry can establish itself as a global leader;

We do not need new areas, we need to restore that which was and to build on it.

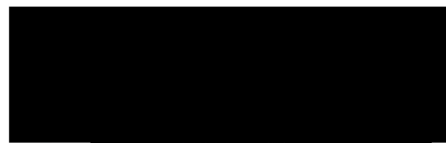
- g. the role that government can play in assisting our domestic manufacturing industry, with specific regard to:**
research and development;
attracting investment;
supply chain support;
government procurement;
trade policy;
skills and training; and

The government's role is essential in all of these cited areas for all of the reasons referred to above and in this Submission.

- h. the opportunity for reliable, cheap, renewable energy to keep Australia's manufactured exports competitive in a carbon-constrained global economy and the role that our manufacturing industry can play in delivering the reliable, cheap, renewable energy that is needed.**

Australia has abundant reserves of cheap energy sources and cannot and should not resort to unreliable sun and wind as sources for any sort of a reliable base load supply of power. Australia requires an energy flux density which can only be produced by sources such as coal, oil, gas, uranium or thorium. Even if a "carbon-constrained global economy" is to be considered, then nuclear energy - either uranium or thorium - is the perfect solution.

I would be happy to expand further on any of the matters raised in this Submission.



Robert H Butler



10th September 2021