

Response to Questions on Notice

**Economics References Committee, Senate of Australia
Inquiry into the Australian Manufacturing Industry**

Submitted by Centre for Future Work

Dr. Jim Stanford, Economist and Director

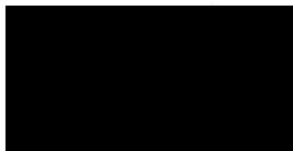
Dr. Mark Dean, Carmichael Distinguished Research Fellow

1 December, 2021

Dear Senators;

We are pleased to respond to your request to answer the following questions on notice arising from the appearance by Drs Stanford and Dean before your committee in November. Please be in touch with any further queries or requests.

Yours sincerely,



**Dr. Jim Stanford
Economist and Director
Centre for Future Work**

1. In your joint submission with the Australia Institute, you called on the Commonwealth to provide \$1 billion for the development of an Advanced Manufacturing Investment Fund to support SMEs in priority sectors. That funding would be matched by capital from other sources. Could you expand on what such a Fund might look like and how it would support the growth of a clean manufacturing sector?

An Advanced Manufacturing Investment Fund would be established to support SMEs across the manufacturing sector, with a strategy to build interconnectivity with other sectors as well (including the manufacturing supply chain). The Fund would be governed by a board of representatives from government, unions, civil organisations, research and business.

A 'new venture' component of the Fund would assess innovative industrial development ventures involving firms or consortia of firms, with low-interest financing provided on the grounds of meeting sustainability, job-creation and capability building dimensions. A major requirement of the new venture funding model would be a joint share/co-investment held by government – both to provide financial and political backing, as well as give the public a stake in resulting industrial and economic transformations. A key goal would be to build supply chain capabilities in Australia's manufacturing and resources industries so that SMEs – and in particular, the 'missing middle' of medium-sized enterprises – can lead the development of Australia's industrial capacity in high-value chain industries and jobs.

An 'advanced procurement' stream of the Fund would pay particular attention to the potential to leverage public procurement budgets at all levels of government, into new business opportunities for Australian manufacturers. The Fund's support for higher Australian manufactured content in awarded procurement purchases would include: tracking the flow of future procurement spending, cataloguing manufacturing components of those purchases, liaising with Australian manufacturers regarding their capability and interest, and then providing fiscal support for new capital investments and innovation required to win those public contracts. The advanced procurement area would also be given scope to invest in workforce development, delivered in partnership with TAFE institutes and the broader VET-sector stakeholders from industry. Skills planning would be informed by both the public aims of industrial transformation, and a long-term view of the needed skills and training to produce highly qualified Australian workforces for the complex and interlinked industries across the economy.

A 'sustainability' component of the Fund would establish a regulatory framework to oversee the other activities of the Fund regarding principles of decarbonisation. This would ensure that all public funding given to investments from the Fund would contribute to decarbonising Australia's economy, meeting our national responsibilities for climate change mitigation and adaptation. In this way, publicly supported investment would contribute more fulsomely to making Australian exports more competitive given the global transition toward renewable energy.

A reference committee comprised of stakeholders from across society and the economy would help to steer the financing aims of new ventures to public purposes, so that resulting manufacturing and primary sector transformations are supported by domestic markets for our high-quality products and services.

2. Your submission also called for the establishment of a ‘Buy Australia Infrastructure Council’, which would facilitate the development of Buy Australia procurement policies. Several other submissions have noted the need for procurement policies to better target domestic industries. For the council specifically, who do you see as sitting on that council, and would there be a role, for example, for trade unions, given that the ultimate beneficiaries of such a scheme would be Australian workers?

The establishment of a Buy Australia Infrastructure Council would, like the Advanced Manufacturing Investment Fund, be governed by a board of representatives from government, unions, civil organisations, research, and business. Its purpose would be to leverage public procurement spending in order to support the development of high-value Australian-made manufacturing products and services. Representatives from unions would certainly feature as key partners in the activities of the Council. Indeed, workers and their representative bodies are often the most knowledgeable about production processes and workplace innovations.

The partnership of unions in these sector-wide bodies (including both the Buy Australia Infrastructure Council and the Advanced Manufacturing Investment Fund) could also facilitate connections between these initiatives and the activities of industry superannuation funds. By facilitating better information sharing regarding investment opportunities in Australian manufacturing, unions can help ensure that industry super investments reinforce the trajectory of advanced manufacturing and renewable energy.

3. You’ve similarly called for a Manufacturing VET Policy Board to develop a better framework for VET trainers and have specifically noted that unions would be integral to this process. Could you expand upon that proposal for us, as well as the problems that such a Board would be designed to address?

Problems in vocational education and the supply of capable apprentices for skilled trades roles constitute a potential roadblock to the future revitalisation of manufacturing in Australia. These issues were discussed in more detail in our 2018 report, *Advanced Skills for Advanced Manufacturing: Rebuilding Vocational Training in a Transforming Industry*, by Dr. Tanya Carney and Dr. Jim Stanford (available at https://d3n8a8pro7vhmx.cloudfront.net/theausinstitute/pages/2829/attachments/original/1529900135/Advanced_Skills_for_Advanced_Manufacturing_Formatted.pdf?1529900135).

We have proposed a Manufacturing VET Policy Board to facilitate more research and dialogue into the shortages of skilled labour in manufacturing amongst all stakeholders: including employers, unions, TAFEs and other vocational education providers, VET

regulatory bodies (including ASQA), and governments at all levels. The Board would gather information from manufacturers on the current and expected future state of skilled labour supply. It would also assemble an inventory of current plans among VET providers to improve their offerings, and a catalogue of best practices highlighting the success of some innovative skills development and placement initiatives (such as co-op and work-study placement experiments). By facilitating more dialogue and research among participating stakeholders into this acknowledged problem, the Policy Board would reinforce efforts to work with governments, TAFEs, and employers to make progress on the task of enhancing the 'pipeline' of future skilled worker supply.

4. Your submission has called on the government to provide more fiscal support for industrial innovation, R&D, and commercialisation (including an accelerate depreciation rate of 50% for other machinery and equipment, and a 100% depreciation for IP and advanced manufacturing machinery). Could you expand on what outcomes you think would be enabled by the introduction of these depreciation measures, and, whether there are any other potential R&D measures which you view as complementary to these proposals?

Australia's performance in R&D activity continues to deteriorate, relative both to historical records and international comparisons. Gross business investment in intellectual property declined in the most recent quarter (June 2021) to just 1.80% of GDP – down almost one-third as a share of GDP since 2012, and the lowest level of business innovation effort since 1995. This negative trend will undermine Australia's productivity and competitiveness for years to come, and needs to be quickly reversed as a matter of policy priority. The decline reflects structural factors – including the shrinking domestic presence of innovation-intensive industries (such as automotive manufacturing). A critical precondition for reversing the erosion of industrial innovation is therefore to successfully nurture the presence of innovation-intensive industries here, through focused and well-resourced industry planning (as we proposed in our submission).

A supporting role can be played with appropriate fiscal incentives. Across-the-board corporate tax cuts have been shown to be ineffective in stimulating business investment generally, never mind the specific forms of innovation activity we are most interested in here. (For evidence on the ineffectiveness of company tax cuts in stimulating real investment activity see "Cutting Corporate Taxes is Not the Way to Support Business Investment," by Jim Stanford, *Perspectives on Tax Law & Policy* 1(2), June 2020, at <https://www.ctf.ca/ctfweb/EN/Newsletters/Perspectives/2020/2/200204.aspx>). Company tax cuts provide no particular incentive for incremental investment activity, let alone the riskier and more longer-term pursuit of innovative products and processes. However, fiscal supports focused directly on eliciting more activity in desired areas hold more promise for reversing the decline in industrial innovation. Investment tax credits are built on a 'pay to play' philosophy, by which fiscal support is forthcoming only for companies which commit additional resources to a desired activity.

The critical role of machinery and equipment in both embodying new innovation, and facilitating its application in production, also deserves focused fiscal support. Business gross investment in machinery and equipment has also declined sharply over the past decade – stagnating below 4% of GDP over the past 5 years, less than half the strong levels recorded in the 1980s and 1990s. Weak M&E investment is both an effect and a reinforcing cause of poor innovation performance, and hence focused measures to incent the use of more machinery and equipment in production (such as accelerated depreciation) are another effective policy response to this problem.

5. Your submission highlighted a need to pursue cheap, renewable energy. As noted earlier in this inquiry, there appears to be growing consideration abroad of carbon tariffs, which would put at risk exports from countries that had not acted with sufficient speed to de-carbonise their manufacturing sectors. In your view, do you think Australia is doing enough to decarbonise, and what do you think the implications would be for the export of Australian manufactured goods were we to fail to decarbonise the sector quickly enough?

Carbon tariffs are a sensible and fair policy response by jurisdictions which have taken seriously the need to reduce carbon pollution consistent with international obligations. Carbon tariffs avoid distorting international trade and investment patterns as a result of the failure by other jurisdictions (so far including Australia) of introducing comprehensive measures to price carbon (whether through taxes or emissions trading schemes) and take other measures to meet standards regarding emissions reduction. The goal is to ensure that efforts to reduce emissions are not undermined by businesses relocating activity to jurisdictions where regulations are less comprehensive. Until such time as Australia implements robust, lasting, and consistent measures to reduce fossil fuel use, including its use in manufacturing Australian-made products, it will be vulnerable to countervailing measures such as carbon tariffs (already being implemented in the EU, and likely to spread to other major trading partners).

This risk to the competitiveness of Australian exports is only compounded by the failure of Australia to harness the economic and environmental benefits of its unmatched endowment of renewable energy sources. Our previous research (see, for example, our 2020 report, *Powering Onwards: Australia's Opportunity to Reinvigorate Manufacturing through Renewable Energy*, by Dan Nahum, https://d3n8a8pro7vhmx.cloudfront.net/theausinstitute/pages/3311/attachments/original/1588894059/Powering-Onwards_FINAL.pdf?1588894059) has highlighted the energy cost savings available to Australian manufacturers from the full utilisation of renewable energy, which is now less expensive and more reliable than fossil fuels on a full-cycle basis. International purchasers of manufactured products are more sensitive, as well, to the carbon footprint of their purchases. This is true of buyers of mass industrial goods (like steel and aluminium), who are tightening their requirements regarding sustainability in their own supply chains.

In this regard, the risk of carbon tariffs being applied to Australian manufactured goods is just one of many aspects in which the failure of Australia's energy policy to move forward consistently and forcefully with decarbonisation is posing major risks to the future viability of manufacturing – and squandering a unique opportunity to rebuild this sector on a sustainable, commercially attractive basis.