SUBMISSION 1

The Committee Secretary
House Economics Committee
Parliament House
Canberra.

Dear Sir,

Please find attached some thoughts on the prospects for manufacturing industries beyond the resources boom. To the extent that the value and relevancy of these comments might be seen as the maunderings of a bystander, I would advise that I was at one time a director and Vice President Of Ford Motor Company of Australia, which is the only car Company fully manufacturing vehicles from design through manufacturing. During my time with Ford I also served as Managing Director of Ford New Zealand, Vice President of Ford Japan and Vice President of Ford Products Company which looked after direct sales markets. I travelled widely over many years through these markets, seeing them grow and develop in the case of Japan, Korea, Taiwan, India and China or failing because of poor governance in one or two others .

In my early years, I worked in the Import Licensing section of the Department of Trade, during which it was abolished and then immediately thereafter as an advocate for Manufacturing Industry before the Tariff Board, later replaced by the Productivity Commission.

After retiring from Ford I became a Member of the Legislative Council in the Victorian Parliament during the Kennett years where I was actively involved in the efforts to rescue the State from it’s financial difficulties.

The point of all this background, is to substantiate the experiences that lie behind my submission. Please convey to your Committee my hope that they will set a direction to address the future problems that are inherently recognized by the Committees terms of reference.

Yours sincerely W.A.HARTIGAN

AUSTRALIA AND MANUFACTURING

Since Australia banished the practice of allocating foreign exchange to specified categories of imports (import licensing) during the Menzies Government term in early 1961, Australia and successive Governments, of all political persuasions, have moved progressively to liberalise Australian trade, through the reduction of import duties, unpegging of the exchange rates, reforming taxation with the GST and the lifting of restraints on the banking sector with regard to Statutory Reserve Deposits.
At the same time, following major failures at the State level, Government debt has been reigned in, so that Budgets are not hostage to the servicing of debt and unfunded liabilities (government superannuation principally).

The rewards have been more efficient industrial production (for those that made the effort to lift productivity) and lower cost imports which produced both real improvements in the cost and quality of goods and services income growth, reducing levels of unemployment and low levels of inflation.

Elsewhere,since that time, particularly in the first world, the “ beggar my neighbour” policy of trade protection became if anything more pervasive and entrenched. Quotas, tariffs subsidies, informal agreements restricts certain classes of imports (Japanese vehicles into Europe and USA and textiles almost universally and of course most agricultural products).

All of the first world talks positively about the need for global free trade to improve every nation’s lot and particularly that of the third world. In practice the political influence of small pressure groups has powerful Governments shirking this issue, and the DOHA round’s lack of progress is testament to this unwillingness.

There is a strong case to be made for a nation to move unilaterally in liberalizing it’s import regime and indeed it’s whole approach to free trade. This is evident in the success so far that Australia has enjoyed through it’s adoption of this strategy over the last 40 years.

The issue now confronting Australia as a small to middling trading nation, is whether there is much left to gain in the future from this global free trade approach when it is not adopted by our major trading partners.

Most of our agricultural products have to be exported into markets corrupted by quotas, tariffs and domestic subsidies specifically designed to protect local, inefficient industries, so that Australia is denied both the higher volumes and prices that should be available to it’s exporters and the foreign exchange necessary to finance a rising tide of imports of goods that used to be made in Australia.

In the long term, those first world countries that so restrict trade will suffer themselves as their impoverished markets overseas (i.e. Australia) buy less and less.

But as Lord Maynard Keynes said, when asked about his views on the long term, that all he knew for certain was that we would all be dead.
The Government needs to deal with the medium term in a way that is consistent with both our own immediate needs and the long term goal of global free trade.

It is true that Australia is experiencing a mining boom as countries such as China and India expand following more liberal market- oriented domestic policies and it may be that this success is masking the problems that Australian faces in the contestable global market for other products.

Very little of our extracted minerals are subject to further processing in Australia, so that the Australian value added is largely limited to wages, salaries and taxes and charges paid by the extracting industries.

Indeed, there is strong evidence that some countries, China in particular, will invest in such projects as part of a backwards integration process that will not only restrict further processing to their own industries in China to boost local Chinese employment and technological expertise but also to exercise downwards pressure on Australian export prices.

Finally, of course, mines become empty holes in the ground. While it makes economic sense to exploit these resources fully, it also makes sense to recognise that the resources involved are finite, and leave Australia’s future economic wellbeing in jeopardy.

Australia's great strength is that it is a large open market, easy of access with sound political, financial and judicial institutions that make trading with us low risk.

We need to develop a strategy that :

(a) states our belief in the virtues of global free trade

(b) expresses our serious concern that the major world economies pay lip service to this ideal and are blocking its progress

(c) states that we plan to establish protocols setting ground rules for foreign investment and exports that require more local processing, particularly of primary products

(d) advises that Australia reserves the right to make such provisions for the support of key sectors of industry as are necessary for their survival in a corrupted international market (these should include the fully integrated design engineering and manufacture of vehicles, ships, light aircraft small and medium weapons and clothing,(all of which are still, if fleetingly, within the capacity of Australian industry) and

(e) advises that we will only move to continued trade market liberalization when the major first world countries and trading nations make genuine and significant moves towards opening their markets towards those products where Australia has a comparative advantage.

Such support as might be offered should as far as possible be non discriminatory as between manufacturers of a particular class of products and should be based on subsidy and tax concessions, rather than tariffs or quotas that only raise domestic prices. The cost in terms of expense and foregone tax revenue would be modest, particularly when measured against the no return impact of the loss of our industrial base.

Such actions would support our technological base until more liberal global free trade obtains when we could review our industry policy.

Another problem that the changing structure of our industrial and our rapidly rising appetites for imported goods reveals is the decline of employment in the tradeable sector and it's relative growth in the non-tradeable sector.

Part of this shift reflects the very significant improvement in productivity by those firms who survived the increased level of price competition from imports by producing more with less labor while part came from the departure of many manufacturers from local industry because of their resourcing overseas or abandonment of their businesses.

While the private non tradeable sector's wage movements are regulated to some extent by competitive market pressures, no such discipline appears to exist in the public non-tradeable sector where employment numbers and wage levels are rising more quickly.
Consequently, costs of goods and services supplied by the public sector are more expensive than they should be and adversely affect the competitiveness of local industry and the purchasing power of employees in the private sector, leading towards upwards pressure on wages and higher levels of inflation than should exist.

This side effect of high economic growth, based in part on cheaper imports, also has provided a growing taxation revenue that has been captured by the public sector, now the largest and best paid of all economic sectors and growing apace.
Unfortunately the present State and Commonwealth Governments appear to be blind to this effect and their inability to fund out of current revenue the sorts of physical and educational investments that would enable our tradeable sector to compete more successfully in international trade.

Governments at all levels could address this significant opportunity to improve our international competitiveness by accepting a responsibility to manage the public sector more efficiently and by maintaining parity in wage levels and growth in the public sector with those of the private sector.
There are opportunities for cost savings that overtime would fund capital infrastructure expenditure out of current income as should be the case.

So, there are things that we should ask our trading partners to do in liberalizing trade, there are things we should do as industry policy to retain an industrial base, at least until our trading partners open their doors to those products where we have a comparative advantage and there are things we can do right now to materially improve the way we use taxpayers funds to the benefit of both employers and employees in the private sector.
If you require further elaboration on the above suggestions please donot hesitate to contact me.

W.A.Hartigan