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SUBMISSION TO THE SENATE STANDING COMMITTEE ON ECONOMICS

THE AUSTRALIAN MANUFACTURING INDUSTRY

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Executive Summary

This submission comprises an essay which pans across some of the areas mentioned here in the overview. It's skimmable, and has a table of contents. The essay endeavours to highlight where blockages exist for manufacturers and some proposed solutions.

It would be easy to write off some of these solutions too quickly. What needs to be recognised is that all businesses now have access to outstanding real-time financial management tools accessible by even the smallest players.

This opens up many opportunities for developing a business ecosystem adaptable to encourage many different types and scale of business with various types of manufacturing to be a part of that.

By extension, this creates opportunities to encourage small (personal) and large (institutional) investment in materials transformative enterprises, which could be myriads of garage workshops operating 3D printers, or mega-projects on a national scale.

The opportunity for this comes from government and business now being able to handle financial arrangements of a greater complexity more easily. This is software leveraged production, which enables customisation to suit more business types and investment structures whether for Australian or overseas investors.

The goal of this concept is greater self-reliance and anti-fragility on a national, organisational and individual level. Such an economy would be efficient, streamlined, flexible and adaptable and would not just absorb external shocks beyond our control but thrive on them.

Manufacturing businesses or any transformer of physical materials have particular demands and requirements including a meaningful physical premises (overheads) and capital investment in machinery and raw materials. And trial and error.

What is proposed here is to set up a business environment which recognises these demands and thus encourages and incentivises investment of capital in these sorts of businesses.

An Australia Post bank to streamline transactions especially in the regions which are most readily inclined towards manufacturing would help set the groundwork for a revival of regional areas many of which are a shadow of what they once were.

A National Development Bank staffed by proven business people could provide the necessary credit for businesses and projects of varied scale. At one end of the spectrum to provide credit for mega-projects to ensure there is enough supply of energy, water from the top end where it is abundant, and transport projects to connect products from the regions to the cities and ports.

At the other end of the scale the bank could be staffed by proven business people who would know how to direct fledgling manufacturers to bring their skills up to speed in areas where they may be lacking, through a national skills and knowledge database, especially including our senior citizens who have a lot to offer in this area.

Many people with an aptitude for manufacturing may not know the minimum of what they need to know in the areas of bookkeeping, finance, and sales and marketing.

When then Prime Minister John Howard introduced the goods and services consumption tax the promise was all other taxes would be replaced. This never actually happened completely, and since then especially recently taxes on capital have been escalating.

This needs to be reviewed and the State governments receive the GST so this promise should apply to state taxes. However with a thriving business ecosystem the revenue from GST will be much greater and more than make up for the shortfall, even if it was being suggested to not pay the taxes at all.

Producers of physical goods require physical stuff. It can't be done online with no overheads. The most onerous taxes and impositions for any start-up manufacturing business come from state and council taxes related to renting of a physical property, running of commercial vehicles (registration), licences with ever-increasing fees attached.

The suggestion is for a structure now easily managed through a modern bookkeeping system where these taxes are paid out of profits (EBITDA) from investment not out of investment capital.

The states could make up for the shortfall in the initial stages by borrowing money from the Development Bank so they could still fund appropriate projects further supportive to these same businesses.

Exporters of raw commodities are generally price-takers and so there isn't a great deal of marketing required. However if Australia wants to think about value-added raw materials then equally we will have to upgrade our sales, marketing, and relationship-building skills with our potential customers. Who will be buyers from other manufacturing nations.

Australia the lucky country has everything we need to make ourselves wealthy with no net foreign debt and a trade and budget surplus, and a properly-funded social services system which can genuinely be afforded.

However to do this we have to combine lucky with smart and this means finding our own way not by blindly following economic models doomed to failure, but by drawing from the best of what has worked for other countries historically, and adapting that to fit our own landscape.

ACHIEVING TRUE BUSINESS DIVERSITY IN AUSTRALIA

~ BOTH IN TYPE AND SCALE ~

INSTEAD OF TOP-DOWN MICRO-MANAGEMENT, DEVELOP A THRIVING AND FERTILE BUSINESS ECOSYSTEM WHICH INVENTS ITSELF AND MULTIPLIES INTO THE AREAS MOST NEEDED

The best time to plant a tree is twenty years ago.

The second best time is now. Chinese Proverb

OUTLINE: Defining the Economic Problem:

- The Status quo is Failing
- The Alternative

Creating a Three-Tiered Value-Adding Business Ecosystem:

- Tier 1: Government Nation-Building Mega Projects
- Tier 2: Publicly Listed / Foreign Ownership
- Tier 3: Grass Roots / Australian Owned

How to Lower the Cost Base for Grass Roots Businesses:

Three Methods of Extending Appropriate Credit

- A way to potentially fulfil PM John Howard's promise of no taxes other than GST
- No company tax on 100% Australian owned unlisted. Just tax the owners.
- Utilise a national development bank to facilitate upskilling and capital for micro-businesses.

Listed Companies to Attract Foreign Investment for High-Tech Metals and Mineral Processing

National Development Bank to Facilitate Tier 1 Mega-Projects to Overcome Limiting Factors for Industrial Value-Adding of Commodities and Minerals.

- A National Development Bank Offering Credit
- Necessity to Overcome Limiting Factors: Water and Power

Encouraging a strong Australian dollar to be considered.

- less cost of imports to encourage home-grown business.

- reduce the AUD conversion requirement for Australian exporters of commodities getting paid in USD.

CONCLUSION

- Centralised Mega-Projects Funded by Government Borrowing
- Foreign Investment via Listed Companies for Value-Added Metals and Minerals
- Decentralised Micro-businesses to Unleash Creativity
- Australia achieves it's human and environmental aspirations by building a thriving engine-room of transformative businesses large and small.

Supportive Excerpt: The Economic Impact (1981)

- From a Queensland Government Report tabled on 22/2/2007

DEFINING THE PROBLEM

The Status Quo which is Failing..

The fundamental problem is that governments are running budget deficits, where they spend more than they bring in through taxation, and the only solutions they see are;

a) Borrow more money to fund the deficit which just increases the burden of interest payments in the future and exacerbates the problem. Even using the excuse of permanently low interest rates, this can only occur through b) below.

b) print money or currency units, inflation of the money supply, or since it is not backed or balanced by any meaningful production this is better described as printing debt, at the expense of the integrity of the currency, which reduces our buying power.

Ultimately this results in rising prices because there are more currency units chasing the same amount of goods. In an environment of decreasing production such as we have now, the problem is even worse because these currency units, no matter where they are issued, will ultimately drive prices even higher.

In the event of stagflation in a poor economy which is a problem that has to be on the table right now, this further serves to suppress production because the consumer can only afford to buy less not more as prices rise, and producers cannot lower their prices because their inputs are increasing in price.

As governments attempt to increase taxation on their only source, businesses and employees of businesses, this puts even more pressure on producers to the point where eventually many businesses, particularly in the productive as opposed to retail sector, become nominally untenable, and when pricing in the risk of existing as a producer of goods at all, it starts to look more and more like a fools errand.

So all of this has to be totally turned around and it can't be done by fiddling at the edges it needs a bold plan designed around the requirements of these sorts of manufacturing businesses.

c) Government micro-managing the business environment by allocation of grants and incentives to chosen businesses and sectors.

What is happening is that money is transferred from one part of the economy to the other via a bureaucracy with not necessarily any net benefit and likely a loss through friction.

This system is prone to sway in favour of vested interests with perhaps a deliberate intention to stifle competition and does not create a bigger pie which is what Australia needs in order to generate enough tax revenue to run a budget surplus.

On the other hand funds left in the pockets of business owners in the first instance to do with as they see fit, in accordance with the requirements and demands of their own customers. That is, the best feedback is direct feedback from the marketplace with no intermediaries and less likelihood of misinterpretation.

d) An Alternative to Reverse these Economic Processes

A fourth course of action that it is supposed this enquiry seeks to address is to close government budget deficits and turn them into surpluses by increasing the value-added production sector. This is as opposed to churning funds though a consumer retail economy with little value adding and only leakage through inefficiencies.

A way has to be found to drive down business input costs to create more profitability, and then product prices in order and increase turnover in the economy, thereby increasing government taxation revenue through tax on profits and most importantly through GST the consumption tax.

Taxing consumption works better when there is more value-adding to raw and primary materials, or by creating productivity enhancing systems (services), which by definition gives an increased value of goods and services to consume and therefore tax through consumption.

The only way to create the mass business mobilisation which this country needs to reverse these trends of ever-worsening budget deficits, ever-rising prices , ever-rising business input costs, and always weak spending power of the AUD, is not to attempt to micro-manage it though a top down process, but to create the fundamental environment for a thriving value-adding business ecosystem where the large supports the medium supports the small, and vice versa.

If the ground is prepared to be free of obstructions and nutrients retained, then hundreds of thousands of businesses have a chance to pop up across the country. Way more than any individual organisation or government department could hope to artificially organise.

In such an environment some businesses won't make it at all, some will reach their natural size and capacity and just exist like that on an ongoing basis in their communities, whilst still others will become massive companies supporting a host of smaller companies in their orbit.

The obvious example often quoted is that Steve Jobs started Apple in his garage, and there are many examples of our own such as when Julian Assange started Wikileaks in his Melbourne bedroom. And there are thousands upon thousands of other examples.

Therefore creating an environment for the flourishing of garage and home-based businesses, or in a commercial hub, in a decentralised fashion, should not be forgotten when commissioning the nation-building mega-projects.

For balance, the larger the government projects embarked upon, then an equivalent amount of resources could be allocated in a decentralised fashion to allow a greater number of micro-businesses to spring up underneath.

These sorts of businesses could include essential items such as clothing and footwear, engineering and 3D printing of components, musical instruments, food and beverage brands – however prospective entrepreneurs will come up with their own ideas determined by where the demand is.

All of the business service sector, marketers, advertising, coaches, accountants etc, can only exist if there are productive and profitable businesses for them to service.

It's not necessarily all about growth for all people – it's also about creativity which adds to our quality of life.

HOW TO CREATE A VALUE-ADDING BUSINESS ECOSYSTEM

A good business is a highly motivated and adaptable organism, by virtue of the drive and entrepreneurial spirit of it's owners and their teams when properly motivated.

A Three-Tiered System..

Working in Malaysia as a wine producer, I found it interesting that the Malaysian economic system was made up several different systems, adapted to the cultural mentality of it's inhabitants, whether Malay (tending towards agriculture), Chinese (tending towards business) or predominantly western expats in better paid consultancy-type jobs, or working visitors and guests from less-developed neighbouring countries such as Bangladesh looking to make a start and support their families back home.

Maybe the overall system wasn't totally fair on the face of it, however it was adaptable and functional. It didn't try to control differences, instead it seemed to embrace difference and adapted to it.

A business ecosystem could be set up in a similar way to embrace and quickly adapt to change.

TIER 1: GOVERNMENT NATION-BUILDING MEGA PROJECTS

These are projects that the country needs to facilitate and unlock it's potential, for example ensuring adequate supplies of raw materials and energy (nutrients) and water to producers.

Australia is already fantastic at utilizing technology to find and bring these materials out of the ground. The next step just has to be taken – the most efficient distribution around our own country so the materials can be transformed at a globally competitive price.

There's no better time than now with so many people out of work and many of the consumer driven businesses fallen over, which for the most part don't provide the desirable high-paid salaries.

Foreign investment would help for these sorts of projects however not necessarily through direct ownership but through interest bearing government bonds issued specifically for this purpose, and overseen by a National Development Bank. The key to this is having a currency that people are happy to hold for a long period.

TIER 2: PUBLICLY LISTED COMPANIES or FOREIGN-OWNED COMPANIES

Foreign investors easily participate in these companies through purchasing of shares. It's easy for the banks to invest in these too.

It is the tech metals type commodities where lies a lot of potential for value-adding, rather than exporting everything in raw form.

As an example the metals used in an electric vehicle, include copper, nickel, manganese and cobalt in the battery, plus lithium, graphite and lead, potentially aluminium and scandium for lightweighting, tin and silver in electrical components. There are huge opportunities for value-adding.

The excuse is always that it’s cheaper to do it somewhere else – and the fact that the cost of producing goods in Australia is high is a problem that can be addressed.

Mining and processing of these metals in volume would take fuel, water and power and so these will have to be sourced cheaply and be plentiful, which is where the Tier 1 infrastructure projects have to come to the party.

However they need not be polluting to the environment as in past decades because there are new ways of purifying the waste water and minimising emissions.

If there was a type of Bradfield scheme where in the early stages of the water diversion hydro-power was being generated, then it would make sense to have some industrial hubs transforming materials in this locale, close to the source of water and power.

Secondly the water losses to evaporation during transportation and storage will be less in a high humidity environment.

It has to be worked out how to leverage the use of the water and the hydropower through transformation of high value commodities and metals, in addition to agricultural purposes which comparatively might be a less efficient use of water measured by the value of the final product, but that just depends on what the agricultural product is.

The other benefit to high-tech metal products is they are not perishable and so they are a store of value, and importantly in the current economic environment hedged to inflation. China is known for stockpiling valuable metals and commodities for a rainy day or for when the market to purchase them becomes unfavourable.

There are plenty of foreign investors who already invest in Australian companies producing these materials via a shareholding / commercial arrangement, in order to secure a supply from a safe jurisdiction for their own manufacturing purposes.

The mining industry often sets up these arrangements for raw materials and they could easily set up the same arrangements where Australia has the means to process the raw materials even just one step further down the line.

As it these processes always end up taking place overseas.

The Tier 1 projects are the means to create the ecosystem where these advanced materials companies can exist and flourish. Naturally it will happen that once these materials are available nearby, then other businesses will pop up wanting to find a use for them.

No-one working in their back shed with a 3D printer has a use for copper ore, or bauxite. They will want high quality refined materials to work with.

Finally this type of industry will potentially reverse the trend where it is getting harder and harder for a producer to get repairs done to their equipment when something breaks down.

The skilled tradespeople are less and less and where they are, they're working for big companies and no longer accessible, where they used to be in their independent workshop around the corner.

Rather than repairing a perfectly good piece of equipment, often it is necessary to go and buy a cheap replacement nowhere near as good or long-lasting. This is inefficient and any producer of goods has equipment that will need repairs and maintenance which has to happen as quickly and inexpensively as possible because the cost of time is so great.

TIER 3: GRASS ROOTS SECTOR - PRIVATE BUSINESSES 100% AUSTRALIAN-OWNED

This would encompass all other types of businesses which supply and support the other two tiers or are early stage springing up to meet a demand. It includes partnerships of many or just one or two, family businesses and sole proprietors.

An argument can be made that Australian companies owned 100% by Australian citizens need not be taxed at all, since the owners of the business can just be paying normal Australian income tax on income from the business. This would encourage leaving money in the company for reinvestment and growth.

After all a company is just an entity designed to facilitate multiple owners, not actually a person, so if the owners are taxed appropriately then the tax revenue would still be there. If the company is profitable, net it would be paying plenty of GST as it reinvested capital in growth. And then employing more individuals who pay personal income tax.

This would encourage Australians to save and invest in (potentially their own) small Australian-owned businesses because they would have the ability to re-invest 100% of their profits, with the owners only paying personal income tax on what they take out of the business. Also this model might prove attractive for Australian investors and speculative capital to enter.

This would give a competitive advantage to smaller businesses against larger listed companies who have more market buying power and more streamlined capital raising options, and economies of scale.

On the other hand the smallest of producers are hamstrung with high overheads unable to develop products and systems, or they just don't exist at all.

Rather than subsidies or price control the best way to assist these 100% or predominantly Australian-owned businesses is to lower their cost base and free up capital for investment to make their products more competitive in the marketplace and therefore bring in other potential bidders both from Australia and overseas.

Potentially it would go some way to recreating a balance where it would be more beneficial to the large retailer to stock smaller brands rather than squeeze them out with own-brands made by corporations.

One way of value-adding is to build a brand, and currently the squeezing out of Australian brands from supermarket shelves is just one more way that the value of our industry is depleted.

HOW TO LOWER THE COST BASE FOR GRASS ROOTS BUSINESSES

The key is in value-adding to materials and IP productivity systems creation because this is what creates wealth.

Helicopter money is not leveraged in any way by creating a value-adding scenario. Instead it is just churned through the system experiencing leakage the opposite of leverage until it is gone and we are back where we started except worse with more debt.

Churning of consumer spending does not add lasting value to an economy, not even when spent on housing. Because once a house is built it is done. It's a roof over someone's head and that is all. It does not have machinery which can create repeated turnover or value-adding once it is finished.

In a properly functioning economy prices are driven down by competition, productivity and increasing efficiency whilst input costs are also driven down as business advances and gets better at what they do – they can do more for less.

In this situation, increased turnover due to lower prices for consumers results in more profits and also creates more revenue from GST as money velocity increases, which is how a consumption tax is supposed to work.

It is important that the money supply be kept in check and in alignment with the value of goods and services, otherwise cost of overheads and inputs may increase from inflation of the money supply.

When this gets passed onto the consumer sales may drop and this is a margin squezze and this is what manufacturers have been dealing with for many years. It's impossible to build adequate reserves.

There are two sides to this equation and here the side of the equation with respect to increasing production is addressed, in order to help keep this equation in balance.

Creating credit into the system by increasing the money supply temporarily is valid if it results in increased value of goods and services within a reasonable amount of time. And this is the principal behind the National Development Bank.

The bank can create credit without inflation over the long term because the credit it creates is used to increase the number of producing businesses and the productive capacity of the country relative to the money supply which can can actually drive prices down not up.

The requirement to inflate away debt by inflation won't be necessary because soon we wouldn't have any debt we didn't actually want.

Two Methods of Extending Credit to Tier 3 Businesses.

Method 1: Provide Credit on all federal, state and local government taxes and charges, offset and payable out of future profits.

When the GST was introduced by Prime Minister John Howard, the promise was that this would replace all other taxes. This never happened then and clearly it is long-forgotten now. *This proposal only suggests that all other taxes would not be payable at the start of the production process, only at the end out of profits.*

Scandinavian countries utilise a taxation model where they don't penalise businesses with taxes on capital and instead rely on their goods and services tax for the majority of their revenue.

Businesses generally don’t have a problem with paying tax – their main concern is being able to make a profit in order to be able to pay tax.

The current situation is that businesses are taxed in advance on their capital from money they haven’t yet been able to deploy into their business to turn into value-added goods and services. This makes the costs higher than they need be and the government loses taxation revenue in the end as a result of that.

This is because every business in the supply chain has higher prices as a result of forward-paying taxation, which multiplies all the way through to the cost of the final product, which contributes to make the Australian product expensive and uncompetitive, anywhere in the world.

Therefore the consumer buys a cheap import instead and the Australian business venture dies, or reinvents itself to sell marked-up cheap plastic landfill on Amazon or ebay.

If a business wants to produce something for a profit, then they have to invest in the basic materials and method of production to make it into a value-added product. They have to put this money down in advance - that is, risk it.

Since there are very many taxes at the start of the process, and recurring annually, then the business never gets to use that particular capital productively. These impositions include property related taxes and licensing fees, business motor vehicle registrations, application and filing fees for accreditations.

Even though for one single business it may not seem like a lot of money, remember that if a business has say 20 or 50 suppliers who are also getting the same benefit of only paying these taxes out of profits, then this would drive down their cost of inputs as well with a beneficial multiplying effect downwards on costs.

It depends on the type of business how many times they can apply this effect in a twelve month cycle, however for at least some businesses at the end of twelve months they would be paying these fees and charges 100% out of profits made. Other businesses with longer production cycles would at the least still receive a cash flow advantage very beneficial because of their long lag-time to market.

For example with a wine or whisky producer their production cycle might be as long as four or five years from investment of capital to realization of revenue and they have to carry their investment in materials and business costs for a very long time. But at the end of this process they may have created a luxury item of high value which ultimately generates more business and tax revenue overall.

In the current environment costs are instead driven up for all businesses compounding into the supply chain and this creates higher prices and less affordability for customers, and therefore less turnover and less tax revenue though gst and tax on profits. So whatever the government takes out at the beginning of the process, they are losing at the end of the process, and multiplied through compounding.

The end result is that our productive sector is driven into the dirt and we end up with the current situation where the government is operating in permanent deficit and with fewer and fewer businesses and employees of business left to tax.

Instead many of these same people end up going back to work for large risk-averse companies or become reliant on government handouts which is now a costly reverse tax.

The only way out is for the government to print or borrow money which can never be repaid and the unfavourable prospect of stagflation is where we are heading unless the dynamic is changed as a matter of urgency.

How it Could Work is that the various government taxes and charges are levied and invoiced as per normal, and go into the business as a cost, however the cash is left in the business as an amount owing, and paid out of future profits when their tax return is submitted.

In this way the business has the opportunity to invest that capital into materials and inputs to create a greater value, and then be in a better position to pay these expenses out of profits made, and still have some capital left for reinvestment.

This is a variation on the idea of profits being able to be offset against prior losses, however it is advantageous because if a business is losing money in their first few years they may not even survive.

It helps preserve cash when it is most needed, and the government can receive the funds later from a successful business when it is far less onerous for the business to pay. And at the same time the government receives income tax revenue from a *greater number* of more-profitable businesses.

When the GST was introduced by Prime Minister John Howard, the promise was that this would replace all other taxes. This never happened then and clearly it is long-forgotten now. *This proposal only suggests that all other taxes would not be payable at the start of the production process, only at the end out of profits.*

This is a simple way to give start-up manufacturers a leg up. OK some revenue will be lost from those operators who wish to abuse the system, at their peril, or maybe some just won't be good enough and they fail. However the increased tax revenue from those many businesses which succeed and grow massively, with many employees and huge gst-paying turnover year in and year out will more than make up for a few small losses on the periphery.

With modern bookkeeping software this would be very easy to implement and to keep track because all of the government expenses being applied like this would have their own category and it just prints out as a number at the end of the financial year.

If the business doesn't make profits (by whatever definition is applied probably EBITDA), then these liabilities accumulate until they do, and then they start getting paid down. In any case this is optionsal and it would be in the interest of the business to let these liabilities accumulate out of hand just as with any other debt.

It is a more efficient method of supporting business than just issuance of government debt, where there is no plan for it to ever be repaid, only by future taxpayers or defaulted upon.

What Australia needs is a structural set up to encourage everyone with the inclination or entrepreneurial desire to think about starting a producing business and know that it is feasible, and that there is a mechanism there to give them the support that they will need especially in the early stages.

Method 2: Utilisation of a National Development Bank to fill the gaping hole in support systems for micro-businesses, and judicious provision of capital in the form of CREDIT.

There is a massive hole in the required support for businesses at the moment, which can't be filled by banks responsible to their shareholders. The banks can come into play once a company becomes more established or listed – they are well-suited to that, but for grass roots businesses starting from scratch, or for businesses grown organically over time and ready to expand to another level there is simply no appropriate support service there.

Often a business owner will have to put their personal home up as collateral for a loan, which just exacerbates the risk. Juggling credit cards is too short term to be effective and is time-consuming and counter-productive, and very expensive if things go wrong, as with loans from some fintech companies.

In the current circumstances a loan from a bank or a fintech company where the situation occurs that the business is unable to meet their original obligations, then this just results in a whole lot of pressure being applied by the lender and inevitably only hastens the end of the business, where in many cases the loan just needs to be restructured to a lower cost base and deferred payments to allow the business time to regroup and recover.

These large bank lenders and their employees do their best, however their structure is not appropriate where risk capital is required, because they are responsible to shareholders and therefore risk averse.

The irony is, that risk is required in order to thrive, because as we are seeing right now, even conservative investments say in property, including commercial, has it's own risks when businesses are not fundamentally strong enough to survive a downturn.

This is because conditions have not been fertile and conducive to a business building satisfactory margin and reserves to offset the risk of being there in the first place if things go wrong, which may just have been an external factor no direct fault of the business.

Any entrepreneur knows that such circumstance will undoubtedly happen over the lifetime of the business. Which is why that business need to make adequate profits to build up reserves.

Producers of physical goods in Australia struggle to make enough margin to build reserves.

A National Development Bank would have the capability to provide large amounts of CREDIT - so defined because it is intended to be repaid by it's recipient, which includes for TIER 1 projects, and also for any other business that qualifies as a value-added producer, transformative of materials and IP into a product of service of greater value.

The idea would be to headline the proposed ecosystem with large infrastructure projects required to support business growth by providing competitively priced energy, water and other resources, and kick start business development.

A version of the Bradfield Scheme to ensure water security without industry, miners and primary producers having to put any further pressure on the various river systems including the Murray-Darling, and the Great Artesian Basin especially in times of drought.

This would also serve to open up regional areas and take growth pressure off of the cities. A plan for advancing the NBN and physical transportation in accordance would be essential.

The Iron Boomerang has the merit of Australia purchasing our own ore for AUD which reduces the requirement for the large exporters to convert back USD or other currencies so they would not be penalised by a stronger AUD.

The same applies with using the produced steel for our own projects or for further value-adding where this portion is not exchange-rate dependent.

Accountability is important and ancillary services are needed to go along with the financing, to ensure the money is not wasted.

Many business owners have a service or production idea however if you go into business for yourself you have to be prepared to develop marketing and sales skills and supplier and customer-relationship attributes. If you are not prepared to do this, or you are not that way inclined, then you are better off just working for someone else who knows how to generate the revenue.

Commodities producers which we currently do well are generally price-takers so little marketing is required to sell bulk product. Although a lot is required to raise capital.

However if Australia is to become a producer of value-added then we will want to become better at marketing and sales. This means to be better at relationships and communications and this means the best communications infrastructure we can get and the best personal training we can get.

The training in setting up the financial side of the business properly using modern software and services allows better accountability to the lender and provides a springboard for success by facilitating more capacity to grow.

What needs to be set up is a fundamental structure to encourage entrepreneurs with the right attributes to invest in businesses. Not just mark-up retail businesses but businesses that require skills to transform the commodities and materials that Australia has in abundance into high-tech materials and products, with a competitive supply of energy that Australia also has in abundance if we could work that out.

If foreign investors want to invest in a business then that is up to the free-market and the business owner within the legal parameters. However the first step is to have something that a foreign investor wants to invest in, and no-one can make that happen but us.

Attracting foreign capital to our shores for the right sort of investment, is a good thing not a bad thing, and the key to that is a stronger AUD based on a sound productive economy, not just an economy based around consumer spending of imported goods.

A STRONG AUSTRALIAN DOLLAR DOES HAVE SOME BENEFITS

It has been repeated like a mantra so often that it is taken as a truth that a weaker Australian dollar or any currency will be beneficial to an economy. However an argument can still be be made that a strong AUD is supportive of our economy, even in a commodities economy like Australia.

We can buy more stuff with a stronger dollar. And not just cheap plastic imported landfill, or electronics and appliances with built-in (planned) obsolesence for our houses.

For example a mining company that wants to build a new mine takes a lot of steel which they have to import, because we don't make any steel here. Any sort of manufacturing company will want to purchase machinery or components that we don't make here.

Every business that wants to market and sell their products and services, and needs to pay for multiple marketing and administrative services usually from US tech companies, has to pay in USD.

All of these businesses, every home-grown domestic business that we have gets penalised month-in, month-out, year-in, year-out when we have a weaker Australian dollar.

The argument is that commodities exporters benefit from a weaker AUD, which is true. However exporters can get paid in USD or another currency if they want to. If Australia was buying ore from them to make into steel then they wouldn't have to repatriate so many AUD.

The idea of the Iron Boomerang would facilitate this benefit and potentially allow a stronger AUD so we can buy more business building products.

Then if the transformed product was exported there's potentially more margin for a transformed product than with a pile of ore, and so we might not need a weak AUD to make the transformation or manufacture viable.

If our skilled tradespeople were buying the transformed materials to make industrial components in their sheds, then we could export them with even more margin, and the exchange rate becomes non-consequential.

Eventually we could use the components ourselves for our own businesses which spring up once they are able to more easily source the inputs they need. And their requirements would guide the development of the manufacturing industry.

The outcome of this is that we wouldn't need to import so much. And therefore we wouldn't need to export so much just to pay for our imports. And it would provide a buffer in times where commodities are not performing well, which is inevitable since commodities are always cyclical.

If our balance of trade is healthier then the government wouldn't need to tax so much to make up the shortfall of a trade deficit, or worse print money with no plan on how it could ever be recouped. In so doing degrading our currency and our buying power.

It would therefore help to keep costs out of business through lower taxation and to release funds for reinvestment in business or community. By protecting the integrity of our currency we can attract foreign investors who want to hold or be invested in our currency. And it avoids the inflationary spiral from a degenerating currency on costs of inputs which ultimately has to be passed onto the consumer.

It has been shown that companies can in fact be responsible enough and generous enough to invest in community on their own behalf - you only have to look at how many Australian mining companies invest in community and in environment in many different countries. The best companies do it and they can do more if they are profitable.

CONCLUSION

We have seen the attempt by government to keep businesses alive rather than letting them all fail with the loss of time, energy and momentum to rebuild everything from scratch.

This is valid, however the right structure has to be put in place to administer this in the most appropriate and efficient way because at the moment it doesn't exist.

Reducing the cost burden for grass roots business to help drive prices down and increase turnover with a simple tax tweak, combined with a National Development Bank to help support and fund businesses to the next level, with appropriately structured finance taking into account the risk profile, will help to create a fertile environment and get potential entrepreneurs thinking about what they might be able to contribute.

A national development bank could be the glue to pull many of these requirements for a successful business together, facilitate the guidance, referrals to training, and then the specialised risk capital necessary in order to build a flourishing business sector.

It would need to be filled with experienced business people qualified to support entrepreneurs and sort out the wheat from the chaff.

Many of our manufacturing skills and IP are now only held by our senior citizens. so perhaps the bank could coordinate a type of indigenous approach by being inclusive of our elders and bringing them in to make some small contribution to impart their skills and knowledge to new trainees before these skills are lost to us forever.

In any event a strong relationship with other manufacturing nations in Asia would seem to be part of the equation. There is no need to alienate anyone, but certainly it means building our international relationships from a position of economic strength, and thereby to create a demand for what we produce.

Proposals such as the iron-boomerang fit the bill because it is located near to the raw resources, top-end water and potentially hydro power.

Perhaps other types of advanced energy technology such as the thorium reactors about to be trialed by China could be considered.

The rest of the world will be grateful for a stronger Australia because many countries appreciate what Australia contributes to our region along with our traditional trading partners.

Rather than micro-management, a dynamic marketplace will provide solutions out of human creativity which can't be imagined now.

What has to be done is to create a tailored and fertile environment for a diverse business ecosystem, multi-faceted to meet the varying requirements and aspirations of businesses, at either end of the size spectrum and bridging all of the gaps in between.

With this, all of the issues of what will be made, which export markets and industries will thrive, and who will invest, will take care of themselves because our customers will tell us what they want.

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 to just 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.