

The Australian manufacturing industry

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Committee Secretary Senate Standing Committees on Economics

Dear Committee Secretary and Senators,

My name is David Stow. I am 70 years old and worked for 50 years as a laboratory technician and industrial chemist, culminating in 26 years as a research and development chemist in industry affiliated to mining. I am old enough to remember when we had industries in car manufacturing, clothing, footwear and textiles, refining our own oil and an abundance of other manufacturing industries. I am also old enough to remember what my employment prospects, job security and workplace culture were like in 1969 through to 2019 through working in many different industries.

Clearly there is some dissent over the future of manufacturing in Australia. The Covid pandemic has accelerated the need for change from the current economic thinking and how the Australian economy is focussed. I will give my thoughts on some of the terms of reference, as set out by the committee.

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

The simple answer is that Australia needs much greater diversity in its manufacturing capability to not only lessen dependence on other countries but also to improve living standards of the Australian people. This, however, flies in the face of what many so-called economists propose, which is policy making based the principle of comparative advantage. Such rationale would have us believe that Australia is a beautiful country, so we should concentrate heavily on international tourism. Australia has great mineral wealth, so we should dig it up and sell it to countries where labour costs are low. These countries can then sell our raw materials back to us as finished goods. Australia has a world class education system, which has been coerced into becoming a run-for-profit organisation that sells of so many places at universities that our own people find difficulty in getting into tertiary education.

Many of our people are now witnessing the pain of losing their businesses and livelihoods as their employment has been largely directed toward producing something that produces little, if any, tangible output under a so-called services economy. As to “security in our region”, I would ask: how much security, whether it be economic security or any other kind, do we have when we rely on imports from other countries for so many of our basic necessities?

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

Manufacturing with a tangible output in this country has been largely replaced by what was once called “services” but is now described as “products” or “industry”.

It is as if those who portray services as being something more tangible than they actually are do so in order to justify charging customers higher prices. When it comes to essential services and production there must be some form of protection for Australian manufacturing industry. Government genuinely concerned with the welfare of its citizens would recognise this and make genuine efforts to restore, at the very least, protection for domestic manufacturing of goods deemed to be essential to the wellbeing of Australian citizens.

The comparative advantage advocates and economic rationalists would tell us that there are no drivers of growth in manufacturing. People are beginning to realising that when there is no driver, then the car, aka our economy, will go off a cliff and take our standard of living with it!

The Covid pandemic has highlighted the failure of the principle of comparative advantage and even, dare I say it, the flaws in market capitalism, which is becoming a casino economy with a “shadow banking” sector, ever-increasing prevalence of predatory finance and surveillance capitalism. After seeing how much difficulty that has resulted from the complex convoluted supply chain arrangements and the potential damage it can cause, it becomes clear that a pandemic is not the only thing that can damage the Australian economy and the living standards of working Australians.

Agreed, Australia has painfully adapted somewhat to difficulties the Covid pandemic has brought to our economy. The pandemic has forced business and what surviving Australian manufacturing industry that remains to source their supplies locally as much as possible. Federal, state and local governments are huge consumers of raw materials and manufactured goods. Instead of outsourcing everything possible, they should lead by example. This would provide a base level of demand for local raw materials and locally made products, which in turn will foster *some* revival of domestic industries.

The strengths of Australia’s existing manufacturing industry and opportunities for its development and expansion;

Predatory financing by for-profit private banks and overseas borrowing are not the solutions to the problem of financing development and expansion of Australian industry that would benefit our population. Again, the balanced-budget-crowd will claim that we cannot afford to finance our own industry and the infrastructure to bring it to life across the country.

Now is the time to legislate for the resurrection of a national bank for financing manufacturing industry and infrastructure. There has been much talk of a national Australia Post savings bank – a great idea that has worked well in other developed

nations. The function of a Postbank could be extended beyond just holding peoples savings to include home mortgage lending. Finance for Australian industry and infrastructure could best delivered, however, by the re-introduction of an Australian national bank in the mould of the original Commonwealth bank. As in the first half of the 20th century, a national bank would have the power perform such miracles as “keeping the private banks honest” *and* financing industry and infrastructure that is deemed to be in the national interest. Some may feel that acting in the national interest may not be possible, given the current tensions between state and federal governments. The faith people have in political leadership generally is an issue in itself and not helped by bipartisan political theatre. I will not underestimate the size of challenges such as this beyond saying that huge changes are necessary.

The prevailing ideology of both major parties currently does not seem to embrace Australia financing its own manufacturing industry. This is despite the government’s own Joint Standing Committee report on Trade and Investment Growth making a recommendation earlier this year for a national development bank. My view is that this recommendation will go nowhere unless the government is forced, kicking and screaming, to act on it. Look at what has happened to the recommendations from the Royal Commission into Banking. If Australia is to have the manufacturing industry commensurate with its natural resources and talent, the economic policy approach of both the major parties must change or they-must-go!

Australia is one of the few countries that can “match” sovereign credit against its sovereign wealth. A national bank is a most positive step in this direction. It can issue credit for the common good of its citizens, rather than just printing more money.

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;

Hmmm... now what source of energy does Australia have a natural advantage in? Could it be uranium, where Australia has the second largest known reserves in the world? Instead of just digging it up and selling it, like we do with our other mineral resources, why don’t we become true experts in nuclear technology, creating and manufacturing safer and more efficient nuclear plants?

I am glad that this term of reference has been worded as it has. As such, the wording will go towards negating the argument that because many manufacturing countries have lower wage structure than Australia, they should do all the manufacturing and Australian workers should serve coffee or make beds. This would be the future for too many of our people under the principle of comparative advantage. They would become the “precariat”. The gig economy – product of a deregulated labour market where workers have very limited rights and income - what a bad joke. As a nation we must reject this.

It has been well documented that a very large amount of valuable technological innovation has ended up in the hands of other countries. Australia would have many more “natural advantages” if we did not sell off our innovative ideas due to a

perceived lack of finance. What are we doing with the trillions of dollars in the superannuation funds of our people? There are a lot of “middle men” making a lot of money out of Australian superannuation, particularly non-Australians. The trillions of dollars held, in the main, by private companies could be invested into financing start-up of some of the brilliant technology ideas developed by Australians. To those that can only focus on money, I would say that Australia desperately needs a true national bank to run the financing of the restoration of Australian manufacturing as well as the necessary infrastructure to support and connect it with potential export markets.

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

Key to Australia’s innovation in the area of manufacturing and technology is our independent engineering and science sectors. What they really need is funding to back their production ideas. For too long the banks haven’t been prepared to finance such businesses. The private bank’s rationale is that public ownership contradicted “efficient allocation of capital”, which, supposedly, can *only* be determined by the pursuit of maximum profit. Maximum profit for whom? A good clue is to take note of the ever-widening gap between rich and poor and the wage stagnation for Australian workers. I didn’t believe in the “trickle down effect” when it came out in the 1980s and I still don’t believe in it. The current economic policies demonstrate that the wealth generally “trickles” into the pockets of a relatively small number of people.

After 26 years working in research and development, I am well aware there is some inherent risk as to the profit potential of new ideas and technology. I suspect, however, that the main reason is more about waiting, particularly in the large banks view, too long for profit. It is much easier concentrate on mortgage lending, building up a huge portfolio of housing loans and making money on derivatives gambling with mortgage-backed securities and other “speculative financial instruments”. No messy infrastructure, tame regulators (minimal consequences for wrong-doing), protection from government (Scott Morrison opposed the banking Royal Commission on 26 occasions). Shutting down as many branches as possible and gouging customers will increase profit further. Keystrokes, algorithms, no threats and big bonuses.

Consequent to the above, Australia has been missing out on amazing opportunities to become a leader in many forms of manufacturing. There are numerous examples of Australian engineering firms being poached by governments of other countries. One Melbourne firm that couldn’t get local support for its invention was offered a loan of almost \$100 million by a Canadian government development bank on the condition it moved production to Quebec. Did I just say “a Canadian Government Development bank”? What a good idea!

Yours sincerely,

David Stow